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Stock Prices Plunge On Tokyo Exchange

Compiled by Our Staff From Dispatches

TOKYO — Prices on the Tokyo Stock Exchange plummeted Tuesday for the second consecutive trading day, and the leading market index recorded its largest one-day drop.

Prices on many European exchanges also fell after the close in Tokyo, as did prices in early trading in New York.

But the decline slowed in afternoon trading on the New York Stock Exchange, and the market there closed mixed. The Dow Jones average of 30 industrial stocks closed up 10.96 points at 1,778.54,

The London Stock Exchange is planning a merger and a name change. Page 17.

although declining stocks led gainers by a 3-1 ratio.

Brokers in Tokyo said investors were extremely nervous when the market reopened after a three-day weekend because of the New York exchange's failure to rebound strongly on Monday from last week's dramatic decline in prices.

The Nikkei-Dow Jones average, the leading indicator based on 225 stocks, fell 637.33 points Tuesday to close at 17,463.19. On Friday, the average fell 460.73 points, which was the previous one-day record. The market was closed Monday for a national holiday.

A broker in Tokyo said: "The fall caught us by surprise. When New York finished up yesterday, we thought the Tokyo market wouldn't drop today."

The Dow average, Wall Street's leading index, had risen only 8.86 points Monday to close at 1,767.58, after dropping a total of 141 points last week.

In London, prices closed sharply lower after the decline in Tokyo. The Financial Times 30-share index closed down 27.4 points from Monday's 1,289.6, which had been an increase of 18.7 points from Friday's close.

Traders said stocks traded on the London exchange lost the equivalent of about £6 billion ($8.9 billion) in value Tuesday.

In Paris, prices also closed lower, and dealers said some stocks lost more than 4 percent in value. The 50-share bourse indicator fell 2.97 percent for the day.

In Toronto, stocks came back from heavy losses in early trading as prices firmed on Wall Street, but still closed lower. The composite index fell 22.10 points, to 2,996.90, up from the day's low of 2,988.50.

Although all sectors were hurt in Tokyo on Tuesday, stocks of electric utilities, securities companies, electrical concerns and other recent market leaders had the largest losses, brokers said.

Declining stocks led gainers by nearly a 4-1 ratio, but fewer than half of the market's listed shares were traded. Turnover was a moderate 500 million shares, compared with 900 million on Friday.

The sellers were generally small investors, and most fund managers, those that are responsible for large portfolios, remained on the sidelines, a broker said.

"As long as we don't see a large volume, there is no reason to panic," she said.

She said fund managers appeared to be waiting for an opportunity to buy. "We should see the fund managers coming in to pick up stocks cheap," she said.

The Nikkei average fell below 18,000 for the first time since Aug. 12. The close was 7.8 percent below the record of 18,936.24 reached on Aug. 20.

News of declines on foreign markets had moved the Dow average as much as 18 points lower in early trading Tuesday.

"The psychological damage of last week does not get rectified in two days," said Peter Furniss of Drexel Burnham Lambert Inc. He said the market had received a few aftershocks, including the drop in the Tokyo market.

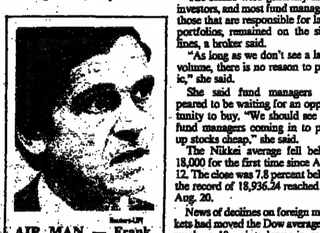
Another factor that pulled the market lower earlier in the day was a rumor that BankAmerica Corp. would require federal assistance to help the heavily indebted bank. The bank firmly denied the rumor.

Michael Metz of Oppenheimer & Co. in New York said recent market movements had been related less to economic conditions than to the condition of market participants.

"Confidence has been shaken, if not shattered," he said. "Participants are extraordinarily nervous and anxious; they're tired of waiting for good news to materialize."

Volume on the New York Stock Exchange fell to 132 million shares from 155 million shares Monday.

(Reuters, AFP, UPI, AP)



Reuters-UPI

AIR MAN — Frank Lorenzo's bid for People Express may turn his Texas Air Corp. into the largest U.S. airline company — but, said one analyst, "it's too early to say whether all of this holds water." Page 17.

Shultz May Visit Pretoria

He Would Press Reagan Position On Apartheid

By Bernard Gwertzman
New York Times Service

WASHINGTON — Secretary of State George P. Shultz has tentatively decided to visit South Africa next month to show the Reagan administration's interest in a nego-

European foreign ministers have approved limited sanctions on South Africa. Page 5.

tiated end to apartheid, State Department officials said Monday.

He would be the highest-ranking administration official to make such a visit, and the visit would occur amid sharp differences between the administration and Congress over new sanctions against South Africa.

State Department officials said Mr. Shultz planned to visit about eight African countries on a trip of 10 days to two weeks. They include Botswana, Kenya, the Ivory Coast, Nigeria, Senegal, Zaire and Zambia.

Congress has approved a set of sanctions against South Africa, but Larry Speakes, the chief White House spokesman, said that President Ronald Reagan would veto the bill when it reached his desk.

A visit to South Africa, which was not planned when Mr. Shultz began to discuss an African trip earlier this year, is caught up in the administration's strategy for avoiding a congressional override of the veto, State Department officials said.

It would be cited by Mr. Reagan

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Eric Gaillard/Reuters

Japanese tourists displaying French visas acquired after a one-hour wait at Menton near the Italian border. France began issuing visas Tuesday at airports and other entry points.

France Seeks 2 Lebanese In Bombings

By Axel Krause
International Herald Tribune

PARIS — French police offered a one-million-franc ($150,000) reward Tuesday for information leading to the arrest of two Lebanese men suspected of involvement in a bombing campaign in Paris.

The reward was the latest step in an intensifying effort by the French government to combat terrorism. In other developments:

- France began issuing visas at airports and other entry points to Americans and all other visitors except those from the European Community and Switzerland. There were few complaints, and delays were minor.
- France said it planned to urge other EC members to follow its lead in tightening border controls. West Germany agreed in principle with the French initiative but stopped short of endorsing the new policy on visas.

The French Interior Ministry said Tuesday that posters would be pasted up on billboards all over France with the pictures of the two wanted men.

The men are Robert Ibrahim Abdallah and Maurice Ibrahim Abdallah, who are brothers of Georges Ibrahim Abdallah, the suspected leader of a group known as the Lebanese Armed Revolutionary Faction. The group claimed responsibility for a series of terrorist attacks in France in the early 1980s. Georges Ibrahim Abdallah is in prison in France.

The police move followed speculation by anti-terrorist experts that the nine-month-old bombing campaign against France has been organized by friends and relatives of Georges Abdallah from the northeastern Lebanese town of Kabayat. Close to the Syrian border, the garrison town has long been regarded as a stronghold of leftist Christians allied to radical Palestinians.

In Beirut, the group that has claimed responsibility for the recent wave of bombings in Paris threatened to hit the French presidential palace unless its demands were met. In addition to release of Mr. Abdallah, it has also called for the release of the would-be assassin of the former Iranian prime minister, Shapour Bakhtiar, and an Armenian convicted of a 1983 bombing at Orly Airport that killed eight persons.

Although there were delays and some complaints from travelers and airlines, primarily from the Japanese, the issuance of entry visas was generally smooth, according to airlines, travel agencies and French government officials.

ON PAGE 2

- **The bombings** are forcing France to confront its ambiguous record on terrorism and Mideast diplomacy.
- **French officials** suspect that a foreign nation's secret service may be directing the attacks.

French officials said it was still too early to provide definitive answers to questions being asked by many tourists and others planning trips to France:

How long will it take to obtain a visa from a consulate?

Who will be refused, and on what basis?

Will airlines be allowed to help process visas?

But answers to some other questions emerged Tuesday. French officials said that foreigners living in France and holding valid resident permits would be permitted to travel in and out of France without a visa. Diplomats from the 42 new countries affected by the stricter requirement will require visas, and diplomatic pouches will be subject to increased scrutiny, officials said.

France plans to urge other EC members at an emergency meeting of interior ministers next week to "align" themselves with the new French government security measures, including the requirement for visas, a government spokesman said. Several other EC members have also called for coordinated action against terrorism.

The French idea for tighter border controls drew strong support Tuesday from Jacques Delors, president of the EC Commission, the community's executive body.

Although Mr. Delors said the responsibility for carrying out anti-terrorist measures remained with governments and was not a commission obligation, he stressed the need for EC governments to show "solidarity" with France.

Sir Geoffrey Howe, the British

See FRANCE, Page 2

Potential Bombing Victim: Tourism

Attacks and Visa Rules Raise New Concern in France

International Herald Tribune

PARIS — The French tourist industry, already hard-hit this year because of terrorism in Western Europe and a weaker U.S. dollar, is bracing for a continued slump because of the Paris bombings and new visa procedures.

Government, industry and airline officials interviewed Tuesday expressed concern that the visa requirements and tighter border controls may prompt U.S., Japanese and other tourists to scratch France from their itineraries when visiting Europe. The officials added, however, that they fully supported the French government's intensified campaign against terrorism.

"The new controls being set up at our borders will act as an additional brake on tourism," said Catherine Magnien, spokeswoman for the national restaurant and hotel association, "and even now we are still getting cancellations for hotels. But the real problem for Americans and others is terrorism. That is why we support the governmental measures, even if it may hurt business in the short term."

The association, which represents 1,500 hotels, estimated that the occupancy rate in four-star deluxe hotels in the past two months had fallen nearly 35 percent from a year ago, and by just over 23 percent in the three-star category.

"We are very worried that this trend will continue," Mrs. Magnien added. "Actually, we had been hoping for a recovery in 1987."

Penton Spring, spokesman for Air France in Paris, said that it was fortunate for airlines and the French tourist industry in general that the recent wave of bombings and the new border controls had come in a slack tourism period.

Peres, in Shift, Plays Down Value of Mideast Parley

By David K. Shipler
New York Times Service

WASHINGTON — Prime Minister Shimon Peres of Israel played down his earlier endorsement of an international conference to pursue a Middle East peace after meeting here with President Ronald Reagan.

Speaking in the White House Rose Garden after an hourlong meeting with Mr. Reagan on Monday, Mr. Peres stressed the need for "direct negotiations on a bilateral ground between each of the parties concerned."

He declared: "The international community can support such negotiation, not substitute for it."

This was not a new position, for Israel has long maintained that an international conference would have to lead quickly to direct talks with Jordan and other Arab countries willing to negotiate peace.

But the shift of emphasis was dramatic, especially after Mr. Peres's meeting Thursday with President Hosni Mubarak of Egypt.

After that meeting, the first between Egyptian and Israeli leaders since 1981, Mr. Peres said that an international conference should be convened and that a committee should be established to examine the prospects.

[Mr. Peres also reiterated Tuesday that the Soviet Union would have to restore diplomatic relations with Israel before it could take part in an international conference, Reuters reported.

["Our neighbors are aware of our conditions," he told a television interviewer. "We told them that we can live with an international conference, provided that all the participants in it will have diplomatic relations with the other countries."

Earlier, Secretary of State George P. Shultz endorsed Mr. Peres's position that the Soviet Union could be accepted into a peace conference only if it restored relations with Israel and relaxed restrictions on the emigration of Soviet Jews.

The Soviet Union broke diplomatic relations with Israel after the 1967 war.

According to an Israeli official, Mr. Peres wants some peacemaking machinery established that cannot be dismantled by the Israeli foreign minister, Yitzhak Shamir, who is scheduled to succeed Mr. Peres as prime minister on Oct. 14.

The Reagan administration has not expressed much enthusiasm for a broad-based international conference, since it would involve the Soviet Union, Syria and other nations hostile to the United States.

Shamir Will Bar Outsiders

Mr. Shamir has reiterated his opposition to international peace talks, saying that when he becomes prime minister next month Israel will seek direct talks with its Arab neighbors and will bar outsiders from the negotiations, The Associated Press reported from Tiberias, Israel.

Addressing members of his rightist Likud bloc in Tiberias on Monday, Mr. Shamir said:

"We will make an effort so that 1987 becomes a year of negotiations — constant, comprehensive and serious negotiations."

"But," he added, "we will not abandon our fate in the hands of countries whose interests are alien to ours."

Charles Tasnadi/The Associated Press

President Reagan greeting Shimon Peres in Washington.

Test Missile Misfired by Soviet Sub

By Richard L. Berke
New York Times Service

WASHINGTON — An unarmed, submarine-launched Soviet missile misfired during a test last week and apparently landed in China, according to Defense Department and White House sources.

The sources said Monday that they believed that the dummy warhead, from a missile which U.S. officials refer to as an SS-N-8, was more than 1,500 miles (about 2,400 kilometers) off course when it landed in Manchuria.

They said the cause of the misfiring was not known. But one official said that "something went wrong with the guidance."

The officials said that the misfiring took place on Thursday and that the United States and China had discussed the incident.

The missile, with a range of as much as 5,000 miles, was fired from a Delta-2 submarine in the Barents Sea and apparently was armed with one dummy warhead, the officials said.

It missed its target — a testing range on the Kamchatka peninsula in northeastern Siberia — and is thought to have landed nearly 200 miles west of the Soviet city of Khabarovsk, according to the officials.

But they said they had been unable to pinpoint where the missile landed, and one official said there was speculation that it had not entered China.

The misfiring was "not thought to be a setback for the Soviets," according to a Defense Department official, who said the Soviet Union had recently been conducting extensive tests of submarine-launched intercontinental ballistic missiles.

According to the 1984-85 edition of Jane's Weapon Systems, the SS-N-8 is about 43 feet long (about 12 meters) and came into use in 1973. In 1983 there were 22 operational Delta-class submarines believed to be armed with the missile.

In 1980 General George S. Brown of the air force, then chairman of the Joint Chiefs of Staff, said that the SS-N-8 exceeded by about 1,800 miles the range of any other submarine-launched ballistic missile in the arsenal of either the United States or the Soviet Union.

For Filipino Rebels, the Fight Goes On

By William Branigin
Washington Post Service

DAVAO DEL NORTE, Philippines — Treading warily in the darkness, Jandy and Mike wind their way along a narrow path through predawn mist that clings to the hillsides of this southern Philippine province.

Jandy, 18, and Mike, 20, are soldiers in the New People's Army, a Communist organization. Their patrol is a routine precaution against attack by the Philippine military.

Their unit is on the run after

Police arrested two soldiers for the 1983 murder of Benigno S. Aquino Jr. Page 2.

ambushing an elite Army Scout Ranger company in which at least 15 troops were killed and 16 others were wounded. They fear that a retaliatory attack could come any time, but they are confident that inhabitants of the area would warn them of any troop movements in daylight hours.

But, they say, this time of day, with the mist, is when the military likes to strike.

Nearly seven months after the overthrow of what their leaders called the U.S.-Marcos dictatorship, Jandy, Mike and thousands of others like them are still in the hills.

They show no sign of giving up a 17-year-old struggle begun against the regime of President Ferdinand E. Marcos. They are still fighting the armed forces of the Philippines — now loyal to President Corazon C. Aquino — because, their Communist Party leaders tell them, an "oppressive ruling class" and an "unjust system" are still in place.

It is evident that the February revolution that brought Mrs. Aquino to power was largely a phenomenon of Manila.

Outside the capital of 8 million people, the Filipinos who live in the countryside and account for 80 percent of the population, have remained largely unaffected by the revolt against Mr. Marcos.

"Even though Marcos is gone, party members, the NPA and the

See REBELS, Page 2

William Branigin/The Washington Post

A Philippine rebel relaxes at the hideout of his unit.

U.S. Helicopters, Troops To Remain in Bolivia

United Press International

WASHINGTON — U.S. troops and helicopters sent to Bolivia in July to back Bolivian raids on cocaine-producing facilities will stay there for an unspecified period at Bolivia's request, the Pentagon said Tuesday.

The 160 U.S. Army troops and support personnel have been airlifting Bolivian police since July 14 in raids against suspected cocaine factories. The troops originally were expected to remain in Bolivia for 60 days. The Pentagon said discussions were under way with other countries for similar U.S. support, but it did not identify the countries.

Textbook Censorship Grows in U.S.

Study Shows Critics Focus More on Ideas Than 'Dirty Books'

By Fred M. Hechinger
New York Times Service

NEW YORK — Censorship of books and public school curriculums in the United States has been increasing dramatically. In the last year, incidents have increased 35 percent; in the past four years they have more than doubled.

These developments have been reported by People for the American Way, a liberal Washington-based lobby on separation of church and state and other constitutional issues, in its fourth annual study of censorship, "Attacks on the Freedom to Learn."

The study also found a significant shift in the nature of the attacks: They are primarily aimed not at what critics call "dirty books" but at ideas with which the would-be censors disagree.

More than in the past, the group said, the driving force is the censors' religious views.

"The survey is evidence of the activities of the religious right to promote their point of view in the public schools," said Anthony T. Podesta, the organization's president. "Almost 60 percent of the incidents were attempts to censor ideas, information and teaching methods in the classroom. Censors today don't just ban books, they want to ban ideas that differ from their own."

But attempts at censorship do not come exclusively from the political or religious right.

The survey reports that environmentalists in Oregon wanted to remove a fourth-grade social studies book they said contained "pro-industry propaganda." The Pinal County, Arizona, chapter of the National Association for the Advancement of Colored People objected to Harper Lee's novel "To Kill a Mockingbird" because it contained "derogatory terms for blacks."

The steady increase of censorship is alarming. In the 1985-86 school year, 39 percent of the attacks on library books and curriculums actually led to removal or restriction of the materials, as against 23 percent four years ago.

'The survey is evidence of the activities of the religious right to promote their point of view in the public schools.'
— Anthony T. Podesta, a liberal lobbyist.

A year ago, surveys by the National Council of Teachers of English's Committee Against Censorship reported that, in 1977, 34 percent of the schools that responded to its questions had received challenges to materials in their libraries; by 1982, the figure had risen to 56 percent.

The English teachers had first noted in 1984 that there had been a dramatic increase in the activities of organized watchdog groups leading to censorship.

People for the American Way said it confirmed this trend: At least 43 percent of censorship efforts, it said, were organized by such groups as Phyllis Schlafly's Eagle Forum, Beverly LaHaye's Concerned Women for America, the Reverend Pat Robertson's National Legal Foundation and the relatively new National Association of Christian Educators.

According to the survey, censorship is increasing in all parts of the country and in both rural and urban school districts.

Targets of censorship, Mr. Podesta reported, included materials in basic courses ranging from English literature and reading to science and health.

Instances of censorship cited in the report include these:

- In Alabama, members of Eagle Forum, Faith America, a fundamentalist organization, and other groups objected to among others, books for teaching foreign languages and music because they failed to meet certain "religious and social philosophies." As a result, the State Textbook Committee rejected 37 books.
- In Louisiana, state officials rejected three environmental science textbooks on the ground that they promoted "radical social and political philosophies and practices." They cited references to dinosaurs as supporting the theory of evolution.
- At Ferguson High School in Newport News, Virginia, "The Color Purple" by Alice Walker ran

See CENSOR, Page 2

French Suspect Mideast Nation May Be Behind Recent Attacks

By Richard Bernstein
New York Times Service

PARIS — A theory gaining currency among some French officials is that those responsible for a series of bombings here over the last 10 days are being trained, encouraged and probably controlled by the secret services of a foreign country.

The group, the officials said Tuesday, has shown a degree of sophistication, an abundance of supplies and an intimate knowledge of events in France that would be highly surprising among a small group of extremists who were acting largely on their own.

A corollary to this theory is that the ultimate objective of the campaign of terror probably goes well beyond the specific demands of the group claiming responsibility for the attacks, namely, that three Middle Eastern convicts in French prisons be freed.

Some officials in Paris say that the release of the prisoners, particularly Georges Ibrahim Abdallah, a Lebanese, may indeed be the aim of the group. But they also say they believe that the broader motivation of the group's backers is to force France to sharply reduce its overall role in the Middle East.

On Monday, in the most brazen attack so far, a bomb exploded in police headquarters, killing one person and injuring 51. The Committee for Solidarity With Arab and Middle Eastern Political Prisoners claimed responsibility for the attack, as it has for other recent bombings.

Very little has been learned about the group, even though the police, particularly in the last few days, have questioned dozens of people who they believe might be linked to it. A police spokesman said that the questioning had produced no solid leads.

He said that among the few certainties in the case was that virtually all of the bombs had been of the same type. It is a type, moreover, that is known to have been used by Arab terrorist groups, he said.

Beyond that, according to the French officials, certain elements in the bombing campaign can be explained by the theory that the attackers, or those backing them, are seeking broader goals than the release of Mr. Abdallah.

For one thing, the bombing campaign itself has virtually eliminated the possibility that the French government might be persuaded to make a deal leading to Mr. Abdallah's release. French officials, including Prime Minister Jacques Chirac, have said that no consideration can be given to that possibility, which would show France collapsing in the face of the onslaught.

A second puzzling element is that France, and no other European country, is the sole target of those seeking Mr. Abdallah's release.

It was announced Monday in Paris that Italy had requested Mr. Abdallah's extradition. The Italian authorities are seeking him in connection with the 1984 murder in Rome of Leamon R. Hunt, an American who was the director-general of a multinational observer force in the Sinai.

Italy has imprisoned more Middle Eastern terrorists than France, including at least two members of Mr. Abdallah's group, yet there have been no bombs in Rome.

The officials acknowledge being puzzled by these anomalies, which, they say, might be explained merely by the fact that the terrorists are not rational people or that they are striking out more in blind hatred than in the pursuit of clear goals.

But the attackers' actions so far indicate not irrationality but a cool and disciplined precision, in the view of these officials.

"The perfection and sophistication of their operations indicates that a national secret service is behind them," one official said. "The placement and the timing of the bombs show a knowledge of this country that a bunch of plain fanatics operating on their own would not have."

On Monday, the attackers struck when the prime minister was chairing an inner cabinet meeting on security. On Sunday, they set off a bomb in a crowded café on the Champs-Elysées only 15 minutes before Mr. Chirac was due to announce a new series of measures to combat terrorism.

According to the officials' theory, the attacks in Paris may be closely related to other problems facing France in the Middle East, in particular, a recent series of attacks on the French contingent in the United Nations peacekeeping force in southern Lebanon and the continued holding of seven French hostages in Beirut.

In all three, the objective seems to be forcing France to change or end the role it plays in the Middle East, the officials say.

The countries seen as most eager to achieve this goal are Iran and Syria, which are regarded as the most likely backers of the group carrying out the bombing campaign. The Iranians, in particular, want to stop French support for Iraq in the Gulf war.


Reuters
Georges Ibrahim Abdallah

FRANCE: *2 Lebanese Are Sought in Bombing Wave*

(Continued from Page 1)

foreign secretary and chairman of the EC Council of Ministers, said he did not anticipate major breakthroughs at the emergency meeting and urged greater cooperation among EC members in such areas as information and intelligence gathering.

In Bonn, senior West German officials said the government of Chancellor Helmut Kohl would not necessarily follow France in requiring visas for most non-European nationals. Heinrich Boge, president of the federal police, said West Germany already had visa requirements citing "citizens of Arab states."

Mr. Boge conceded in a radio interview, however, that frontiers within the 12-nation community had become "very penetrable" and that reinforcements were being discussed for West Germany's border police of 20,000.

Senior West German diplomatic and EC Commission officials, commenting privately, said they expected that the London meeting of interior ministers, called at France's request by Britain, would seriously discuss extending France's requirement for visas to other EC countries.

"The only way of ensuring that the French system will work is to apply it to all EC countries, so there is a common external border," one official said.

Spokesmen for French and U.S. airlines said the new immigration formalities in France went smoothly on Tuesday because three processing areas had been set up: for nationals of EC members and Switzerland, who may enter France without visas; for nationals previously requiring visas, such as citizens of Communist and Middle Eastern countries; and for those who now require visas, including nationals of 42 countries, such as Algeria, Australia, Canada, Japan, Sweden and the United States.


Reuters
Robert Abdallah

"Processing took somewhat longer, but in an average 45 minutes per plane, everybody was processed and baggage delivered," said Reine Cavey, a spokeswoman for Pan American Airways, which handled three jumbo-jet flights from the United States, mainly carrying American passengers. "Everyone was very understanding, and everything was positive."

Spokesmen for Air France and Union Transporteurs Aeriens, both French carriers, also reported that the new visa-issuing procedures were operating "smoothly" but could become hectic when passenger traffic picked up substantially in the spring.

In contrast to the upbeat versions, Japan Air Lines said its passengers on an incoming flight from Tokyo, mainly businessmen, had complained about the delays.

"It was just crazy," a JAL official said. "We had a 747 come in early Tuesday with only 111 passengers, and it took double the time to process the passengers. It took two hours, whereas it normally takes 40 minutes to an hour, maximum."

The official said that while passengers had been "understanding," they had complained.

Report on Police in Punjab

Reuters

NEW DELHI — The Punjab police have killed 53 Sikh extremists and captured 906 this year, according to the state police chief, Julio Ribeiro. Mr. Ribeiro, who was appointed in March to mount a drive against extremists in Punjab, said the figures were for January through August.

Terror Attacks in Paris: A Legacy of Ambiguity

Contradictory Policies Toward Mideast Are Seen as Root of the Current Crisis

By Joseph Fitchett
International Herald Tribune

NEWS ANALYSIS

PARIS — An eruption of terrorist explosions in Paris is forcing France to confront a legacy of contradictory policies in its recent diplomacy in the Middle East. A second and more troubling conflict involves a record of ambiguousness on terrorism by successive French governments.

More so than any other Western country, France has flirted with Arab radicalism, going so far as to permit questionable political activities within its own borders. Yet at the same time, the French have given hard-nosed support to conservative Arab governments.

France has been playing a major military role in the Gulf war, helping Iraq stave off an Iranian victory that diplomats say would help spread Islamic fundamentalism. French arms deliveries to Iraq have been critical in reassuring other Arab oil-producing states in the Gulf, where many leaders feel threatened by the Iranian revolution.

The French commitments in the Middle East, which have generally not been explained or debated domestically, seem to be the main target of pro-Iranian terrorists operating in Paris.

In standing up to the terrorists' pressure, the French government is grappling as well with its past compromises. On Libya, for example, France has alternately wooed Colonel Moammar Gadhafi diplomatically and confronted him militarily in Chad.

Libya is one of the main Arab allies of Iran, which French intelligence agencies have identified as the main source of anti-French terrorism.

In Lebanon, other pro-Iranian groups have taken at least seven French citizens hostage. In addition, French troops in the UN forces patrolling the border between Lebanon and Israel have come under repeated attack by pro-Iranian Shiite Moslem groups.

France has vowed to resist terrorist demands to release convicted terrorists or to change policy in the Middle East. President François Mitterrand, a Socialist, and Prime Minister Jacques Chirac, a Gaullist, appear to have buried their political rivalry long enough to crack down on terrorism.

For both men, it has involved changing some long-held political tenets. In the past, both of them have championed French accommodation with liberation movements — a policy that was based, for admirers, on solidarity with oppressed peoples or, for critics, on opportunism.

These policies were seldom challenged. The government faced little domestic pressure because France has been spared from terrorist campaigns like those waged by the Irish Republican Army in Britain, the Baader-Meinhof gang in West Germany, the Red Brigades in Italy and Basque separatists in Spain.

Throughout the 1970s, according to diplomats, French conservative governments apparently concluded a tacit agreement with key foreign extremists. They were allowed to use France as a sanctuary as long as they refrained from operations against French targets.

The ambiguities of this French policy surfaced, for example, in 1977 when Abu Daoud, a Palestinian leader accused of masterminding the attack on the 1972 Olympic Games in Munich, was arrested while on a visit to France, then released after a quarrel between the two main French intelligence services.

The counterespionage agency sought to cooperate with West Germany by extraditing Mr. Abu Daoud, but the French foreign intelligence service prevailed, insisting on his release to preserve French ties with radical Arabs.

Mr. Mitterrand's Socialist government, elected in 1981, applied an open-arms policy of granting asylum to any political fugitive: Basque, Italian, Irish and Arab.

Claude Cheysson, the foreign minister for most of the Socialists' five years in power, was asked in an interview on French television in 1981 if France would protect foreigners convicted of terrorism.

"All political activists are entitled to asylum here," he replied.

To protect his room for maneuver with Iran, Libya, Syria and other radical forces in the Middle East, Mr. Mitterrand vetoed proposals in the French government to formulate an anti-terrorism policy as recently as last year.

Now under assault itself, France has hardened its attitude toward political fugitives suspected of terrorism, apparently with the acquiescence of Mr. Mitterrand.

Suspected Basque terrorists, for example, are being extradited. Mr. Chirac has hinted broadly that French agents could even be ordered to assassinate terrorist leaders or foreign officials implicated in anti-French terrorist acts.

For the moment, France displays a solid political consensus behind this tough stance. But many Frenchmen are still asking one another whether the government can turn its back definitively on ingrained habits of compromise.

WORLD BRIEFS

U.S. Union Objects to Drug Tests

WASHINGTON (UPI) — A federal employees union filed suit Tuesday in U.S. court to block President Ronald Reagan's order to set up mandatory drug-testing programs to test government workers, a spokesman said. Mr. Reagan announced the order on Monday.

George King, a spokesman for the National Treasury Employees Union, which represents about 120,000 of the nation's 2.8 million federal employees, said the suit sought an injunction to halt Mr. Reagan's order. The union's president, Robert Tobias, said: "No innocent federal worker should be subjected to this demeaning urine test. It robs them of their constitutional rights."

[Meanwhile, Senate Republicans were considering introducing legislation to expand the use of the death penalty beyond drug-related federal crimes to include major crimes such as assassination of the president, aides to the Republican leadership told The New York Times. One aide said the expanded death penalty "will definitely" be included in a wide-ranging package of drug law-enforcement measures scheduled to be unveiled by Senate Republicans on Wednesday.]

13 Killed in South African Mine Fire

JOHANNESBURG (Reuters) — Thirteen workers were killed, several were injured and hundreds were still underground after a fire Tuesday at a South African gold mine, the mine owners said.

General Mining Union Corp. said that 1,800 of the 2,200 miners in the area had been evacuated and eight rescue teams were trying to bring the others to safety.

Some of the victims died from fumes following the blaze at Kinross Mine in the eastern Transvaal, the company said. The fire, now extinguished, had started as a result of a welding accident at a crosscut, a major connection between two shafts, according to the company.

EC, Turkey Re-establish Formal Ties

BRUSSELS (Reuters) — The European Community resumed formal ties with Turkey on Tuesday as foreign ministers met for the first time since relations were frozen following the 1980 military coup in Ankara.


Camera Press
Vahit Halefoglu

Vahit Halefoglu, the Turkish foreign minister, said the meeting Tuesday was the first in a series that would lead to full EC membership for his country. But Theodore Pangalos, the alternate Greek foreign minister, said that a long list of grievances and insufficient progress by Turkey on restoring democratic rights would prevent a full reactivation of the now-defunct EC-Turkey Association Council. He said that there was no common position on future contacts.

Sir Geoffrey Howe, the British foreign secretary and current president of the Council of Ministers, the EC's policy-making body, said after the meeting that increased EC contacts with Turkey would have to be matched by further concessions by Ankara on human rights. "It's a matter of common knowledge that this process is not yet complete," he said.

Little Progress in Hijacking Inquiry

KARACHI, Pakistan (NYT) — An investigation into the background of four men who hijacked a Pan American World Airways jumbo jet here this month has failed to find evidence of a link with any foreign government, according to investigators and other government sources.

The investigators also said that although the four men undoubtedly were assisted by some organization in Pakistan, little progress had been made in identifying it or in finding the hijackers' supposed accomplices.

No links to the hijacking have been made with the Abu Nidal organization or other known terrorist groups. In addition, a number of Palestinians and other Arabs have been held for questioning, but officials said that no links have been established with the hijacking.

41st UN General Assembly Begins

UNITED NATIONS, New York (AP) — The General Assembly opened its 41st session Tuesday with proposals to reform the UN bureaucracy and with a 142-item agenda that includes proposed resolutions condemning South Africa, Israel and the arms race.

The assembly's first item of business was to elect Foreign Minister Humayun Rasheed Chowdhury of Bangladesh as president of the session. In his opening address, Mr. Chowdhury said that the world body faced an economic crisis with "the potential of crippling the organization to a point beyond recovery."

Iraq Reports Raid on Iran Terminal

BAGHDAD (NYT) — Iraq said Tuesday that its fighter-bombers struck an Iranian oil terminal at Kharg Island in the northern end of the Gulf three times in 45 minutes, inflicting damage on jetties and on anti-aircraft emplacements.

Although Iraq dose not usually announce the number of flights by individual aircraft, the strikes seemed to be unusually intense and determined because the second and third waves of planes were flying into alerted defenses.

The raids followed a statement to the nation Monday by President Saddam Hussein. He seemed to indicate that he would follow a policy of striking only economic and military targets in retaliation for recent Iranian actions that have inflicted casualties in civilian areas within Iraq. Last Friday an Iranian missile hit central Baghdad, killing a reported total of 24 civilians and wounding 80 others. Iran and Iraq have been at war for almost six years.

For the Record

About 1,000 dissident South Korean students opposed to the holding of the Asian Games in Seoul fought police with gasoline bombs and stones during a demonstration at Korea University on Tuesday. The games are scheduled to start Saturday. *(AFP)*

President Suharto of Indonesia issued a strong appeal on Tuesday for a halt to the arms race at the start of a visit here by President François Mitterrand of France. *(Reuters)*

Correction

Because of an error in currency conversion, an article on Singapore in the Travel section of Sept. 12 incorrectly stated the price of a hotel room at the Raffles Hotel. The correct price is $60 plus tax and service.

Court Orders Arrest of 26 in Aquino Murder

Reuters

MANILA — Police arrested two soldiers on Tuesday who were among 26 people acquitted last December on charges of involvement in the murder of Benigno S. Aquino Jr., the husband of President Corazon C. Aquino.

The Supreme Court has ordered a retrial of the 26, including the former military chief, General Fabian C. Ver, now in exile in Hawaii. Another court issued warrants for the arrest of the 26 persons earlier Tuesday.

The two detained soldiers, Rogelion Moreno and Mario Lazaga, were in a group of four escorting Mr. Aquino from a plane when he was shot at Manila airport in August 1983 on his return from exile in the United States to rally opposition against President Ferdinand E. Marcos.

Mr. Marcos was toppled last February in the civilian-backed military revolt that brought Mrs. Aquino to power.

An official inquiry, which concluded in 1984 that the murder was a military plot, named Mr. Moreno as one of the two soldiers who could have shot Mr. Aquino while he was descending the aircraft steps.

General Ver, 24 other soldiers and a civilian were charged in connection with murder, but a special court acquitted them last December.

The arrest of the 26 was ordered as a result of a decision Friday by the Supreme Court that they should stand trial again.

The Supreme Court said the original trial judges had been pressured by Mr. Marcos to acquit the defendants and the hearing had been a sham.

Judge Francis Garchitorena, who issued the arrest warrants, said General Ver, who fled into exile with Mr. Marcos, and a captain also reported to be in the United States were beyond the reach of prosecution.

The Philippines has no extradition treaty with the United States.

The judge ordered the accused arrested on their old charges of involvement in the murder of Mr. Aquino and of Rolando Galman. Mr. Galman, shot dead by security guards moments after Mr. Aquino was killed, was described as a Communist agent by the military, who blamed him at the time for the opposition leader's assassination.

Seventeen of the accused were charged in the original trial as principals, eight as accessories and the lone civilian as an accomplice.

Tuesday's court hearing ordered bail of 30,000 pesos ($1,500) for the accessories and 40,000 pesos for the civilian. The others were ordered to be held.

■ **Aquino Has Talks in U.S.**

President Aquino had talks on Tuesday in Washington with Vice President George Bush and officials of the World Bank and the International Monetary Fund, United Press International reported.

Before the meetings Mrs. Aquino told reporters that she had been informed by her military chief, General Fidel V. Ramos, that "all was well and quiet" in Manila.

Neither Mr. Bush nor Mrs. Aquino made any public comments before their meeting.

The Philippine president arrived Monday night to begin her nine-day visit, with more than 3,000 people cheering her with banners, colored lights and chants of "Cory! Cory!" Secretary of State George P. Shultz greeted her at the Washington Monument.

She is scheduled to meet President Ronald Reagan for the first time Wednesday and to address a joint session of Congress on Thursday. She then travels to New York and Boston for talks with creditor banks and business executives in hopes of luring new investment and easing repayment terms on a $26.3-billion foreign debt.

REBELS: *A Test for Aquino*

(Continued from Page 1)

masses recognize that the struggle has to continue no matter who is in government, because the causes are still there, the seed of revolution remains and grows," said a leader of the Southeastern Regional Mindanao Party Committee of the Communist Party of the Philippines.

He, like most of the Communists in the underground, uses one or more aliases and is going by Ka Manny today. *Ka* is an honorific used by peasants and adopted by the Communists to mean, roughly, "comrade."

A two-day visit to what the rebel army considers a rebel-held territory, as well as discussions with underground Communist leaders in other parts of the country, made it clear that the Aquino government and its supporters, especially those in the hierarchy of the Roman Catholic Church, have seriously underestimated the rebels' motivation to keep fighting.

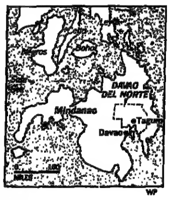
They also have apparently underestimated the Communist Party's hold on its estimated 16,500 New People's Army regulars, its nearly 15,000 "part-time" militiamen and its hundreds of thousands of civilian followers.

The party clearly has recovered from a major debacle in February when it promoted an unpopular boycott of the presidential election and was subsequently left out of the anti-Marcos revolution that followed Mr. Marcos's massive electoral cheating.

The results have included major leadership changes and further decentralization, party officials said.

"We are still intact in spite of our error and the boycott position," said Ka Max, a 37-year-old member of the southeastern Mindanao party committee. "The boycott was a negative experience, but we learned from it. There has been some improvement in democracy in the party."

The visit and interviews also suggested that the party is in the midst of a fundamental shift in strategy, from a primary focus on armed struggle to a greater emphasis on legal and political arenas, notably elections.



WP

Through a front called the Partido Ng Bayan, which amounts to a legal Communist party, the Communist Party is gearing up to contest local and congressional elections expected next year.

Meanwhile, despite cease-fire negotiations, the party is committed to maintaining its guerrilla army to help continue its political and organizational work and to protect itself in the event of an eventual military takeover.

The strategy also includes efforts to split the Aquino government from the armed forces, while staking claim to the role of Mrs. Aquino's "protector" from a military coup.

In the process, the rebels seek to acquire international recognition and to broaden their contacts with traditional Filipino politicians who see leftist support as furthering their ambitions.

Fundamental to the new strategy, Communist sources said, is a move away from the party's long-held Maoist doctrine that a "protracted people's war" must be waged in the countryside and advanced through specific stages culminating in a strategic offensive against the government.

According to Ka Manny: "What is evolving in the Philippines is partisan warfare. The point is that warfare can be waged in the cities, not only in the countryside. This is an improvement on Mao's theory."

It is also apparent that the government has not grasped the extent of Communist infiltration and influence in practically every sector of society, including the church.

Members of the still-outlawed Communist Party and their allies can be found hiding out not only in rural barrios, but also in well-appointed offices in Manila's Makati business district, in local government jobs, in parish churches and convents, in labor unions, human-rights groups, legal political parties, classrooms and newspaper offices.

SHULTZ: *South Africa Visit Seen*

(Continued from Page 1)

as an example of the administration's effort to maintain a dialogue with all sides in South Africa. Moreover, the president is expected to nominate a black U.S. Foreign Service officer, Edward J. Perkins, as ambassador to South Africa, to help bridge the gap between blacks and whites in that country.

The officials said a trip by Mr. Shultz to South Africa should not be seen as a negotiating session, because he would be there only a day or two.

Mr. Reagan has made clear his opposition to severe sanctions. But administration officials, in consultation with European allies and congressional leaders, are considering a set of modest sanctions in an effort to persuade enough legislators not to override a veto of the congressional measure. The sanctions being considered by the administration would be mostly symbolic, such as a ban on U.S. landing rights for South African Airways.

One of the arguments made by Mr. Reagan and Mr. Shultz in opposing severe sanctions against South Africa is that they would limit U.S. influence in South Africa while U.S. counsel is more necessary than ever to prevent a worsening of the situation.

CENSOR: *More Bannings in U.S.*

(Continued from Page 1)

into trouble because of language seen as objectionable.

- In Florence, South Carolina, the school board voted to remove the Merriam-Webster College Dictionary from school libraries in response to a parent's objections to the definitions of certain words.
- In Church Hill, Tennessee, Concerned Women for America sued school officials over the use of the grade school reading series published by Holt, Rinehart & Winston, because of the books' "secular humanism." A ruling is expected soon in U.S. District Court.

The report charges that organized censorship efforts are increasingly accompanied by more sophisticated tactics of litigation, regulation and legislation.

The National Legal Foundation, for instance, is financing a challenge to the entire public school curriculum in Mobile, Alabama.

هكذا من الأصل

Evangelist Seeks God's Backing for Presidential Race — and Hard Cash

By Dudley Clendinen
New York Times Service

ATLANTA — On Wednesday evening, in response to a "personal letter" from the Reverend Pat Robertson, a television evangelist, thousands of evangelical Christians are expected to flow into hundreds of rental halls across the United States.

They will experience an event that will be different both from its advance description and from anything in the nation's political past.

"This historic meeting," the letter said, "will be beamed via satellite across America to a number of locations, one of which will be convenient to your home."

It continued: "This will be a private meeting, a very special meeting, when I can open my heart to you and tell you my concerns and my dreams for all of us in this great nation. A time when I can tell you personally my decision about seeking the nomination for the presidency of the United States."

What the letter does not say is that the entire production, the three-hour program from Constitution Hall in Washington, the rental of the satellite time, the rental and staffing of the halls, the development of the mailing list of hundreds of thousands of names, and the printing and mailing of the letter itself, is the work of a private promoter who must be paid for his efforts, and that a collection will be taken in each rental hall.

Nor will Mr. Robertson actually announce a decision that night about his interest in running for president, his aides say.

Instead, said Dave West, spokesman for Americans for Robertson, which Mr. Robertson recently formed to test the political waters for 1988, "he's going to establish some thresholds of support that need to be reached before he can make a final announcement."

Pat Robertson

The decision on running is one that Mr. Robertson originally said he would entrust to God. He repeated in New Orleans last week, in a manner familiar to charismatic Christians, that he would not become a candidate if he did not feel he had God's support.

"I wouldn't get into this election unless I feel that," Mr. Robertson said. "And I won't do it if I don't."

His letter said: "When at least three million registered voters sign to give toward a campaign effort, I will seek the nomination of the Republican Party as their candidate for the presidency of the United States."

Mr. Robertson, a Southern Baptist preacher, is the son of A. Willis Robertson, a Democrat who served in Congress for 33 years.

In his public exploration of the question, Mr. Robertson is making history by applying the tools and skills of modern television evangelism to presidential politics.

The event is being organized by Victory Communications International, an Arizona concern whose president, Michael Clifford, said it specialized in productions for nonprofit groups.

Mr. Clifford said he produced a satellite show in December for Campus Crusade for Christ that involved 700,000 seats in 97 cities in 67 countries.

Mr. West said that at least 200,000 people were expected at almost 220 halls rented for the event.

Many will come from the membership of "The 700 Club," Mr. Robertson's Christian news and talk program on the Christian Broadcasting Network.

The network, which Mr. Robertson founded and operates from Virginia Beach, Virginia, "rented" the mailing list to Victory Communications, Mr. West said.

The names were culled from membership lists bought and rented from 75 organizations, Mr. Clifford said. He declined to name them.

The basic technique of a potential leader's baiting the hook is at least as old as the Old Testament, said Nancy Ammerman, an assistant professor of the sociology of religion at the Candler School of Theology at Emory University, in Atlanta.

"It's in the grand old tradition of what fundamentalists often refer to as 'putting out a fleece,'" said Ms. Ammerman, whose father was a Southern Baptist preacher.

"It comes from the story of Gideon," she said, "when God said, 'I want you to lead the faithful,' and Gideon said, 'Who, me?'"

To test the call, she said, Gideon put out a fleece, the first night to see if it would be dry in the morning while the ground around it was wet, and the second night to see if the fleece would get wet while the ground remained dry.

If that happened, as Ms. Ammerman recalled the story, Gideon said, "I'll know it's you, God." And that, she said, is Mr. Robertson's strategy: to involve the faithful repeatedly in his decision, so that the intent of God becomes apparent between them.

"They will be looking for evidence," she said, "that this is in fact God's will."

Pierre S. du Pont 4th

Du Pont to Run For President on Reagan Themes

United Press International

WILMINGTON, Delaware — Pierre S. du Pont 4th, former governor of Delaware, announced Tuesday that he is a candidate for president in the 1988 elections. A Republican, he is the first announced candidate from the two major parties.

Mr. du Pont, 52, pledged to follow policies in line with those of President Ronald Reagan.

He said he advocates reductions in government spending and favors the Strategic Defense Initiative, Mr. Reagan's space-based missile defense program.

Mr. du Pont focused on fighting illicit drugs, saying: "It's time to get tough with drug users." He proposed mandatory drug tests for teen-agers in school.

His presidential campaign committee has been active for months and has raised $500,000.

The 'Personal' Campaign Letter

Mailed in Thousands, It Brings Flood of Contributions

By Bill Peterson
Washington Post Service

ST. PETERSBURG, Florida — The invisible part of Senator Paula Hawkins's re-election campaign operates out of a sterile-looking room in an industrial park here. In the room is a mainframe computer and a laser printer.

The printer, not much bigger than a kitchen dishwasher, can spit out 20,000 "personally" addressed letters an hour. It can make letters look as if they were typed in the White House, or scribbled by the senator from a hospital bed.

Mrs. Hawkins, a first-term Republican facing a tough re-election battle against Florida's governor, Bob Graham, a Democrat, has sent 900,000 such letters in recent months.

Each letter cost about 40 cents to produce and mail; each has brought an average of almost $1 in return.

Mrs. Hawkins has mailed letters over the signatures of President Ronald Reagan; the Senate majority leader, Bob Dole, a Republican of Kansas; Senator Orrin G. Hatch, Republican of Utah, her husband Gene and herself.

But the letters were written by Mike Pachik, the creative director of Direct Mail Systems, a Florida-based direct-mail company. The politicians simply approved and revised them, a standard direct-mail practice.

Each letter uses a chatty, personal tone. The Dole letter, for example, was dated "Tuesday evening" and noted that "Paula told me she has already written to you for help," and "she didn't want to bother you again."

But there is a clear sense of urgency in each letter, a new crisis to overcome. And each contains an appeal for money.

"Emergency campaign funds are needed immediately for use in media advertising, literature distribution and other programs," declared the most recent letter, mailed to 20,000 "very special supporters."

Most of the crises involve "the Washington pressure groups," the "special interests," "the liberal Democrats" and the news media.

'Emergency campaign funds are needed immediately for use in media advertising, literature distribution and other programs,' declared a recent letter, mailed to 20,000 'very special supporters.'

"The Democrats and the liberal news media have tried their best to keep me down," one Hawkins letter said.

"If I were to lose, the liberals could control the entire Senate and stonewall all of President Reagan's programs," it said.

"Together, you and I and President Reagan are an unbeatable team. Right now, he and I need your help, more than ever."

Included with the letter was a light blue certificate, "suitable for framing."

Printed on the certificate was the name of the recipient, the American flag and the notation: "In appreciation, for your support of a stronger America and your commitment to better government."

Direct Mail Systems has raised $750,000 for Mrs. Hawkins with such letters, or about one-eighth of her $6.5-million campaign budget.

In addition, much of the $800,000 Mrs. Hawkins is to get from the National Republican Senatorial Committee has been raised through the mail.

Mr. Graham has a smaller direct-mail effort designed to raise about $200,000. Like Mrs. Hawkins, he faces crisis after crisis, if one believes his letters.

Mr. Graham's crises, however, are caused by "the huge tide of national Republican money" and "all of the glamour, power and prestige the opposition can muster."

Direct mail has become a mainstay of fund-raising for presidential candidates and for scores of groups on the political left and right.

Senate and gubernatorial candidates have been slower to adopt direct mail. This year about three-fourths of all Republican Senate candidates and one-fourth of Democratic counterparts are using it.

One beauty of direct mail is that it allows a candidate to "target" a message at one group of voters without alienating another group.

A candidate can target one letter at single, white female Democrats aged 25 to 30, stressing support of legalized abortion; another at independent married couples 35 to 45, stressing "family values," and another at Republicans over 65, about Social Security.

Jewish voters can be sent letters that talk solely about Israel, as did one Hawkins letter signed by Senator Rudy Boschwitz, a Republican of Minnesota. And Cuban Americans can get letters in Spanish.

Hardened Political Lines Kill Salvador Peace Talks

By Edward Cody
Washington Post Service

MEXICO CITY — The collapse of efforts to resurrect peace talks between the Salvadoran government and leftist insurgents has underlined the increasingly hard lines on both sides of the six-year-old conflict.

Government and rebel representatives, after three days of meetings in Panama, on Sunday blamed disagreement over security arrangements for their failure to organize the renewed peace discussions.

The talks had been scheduled to begin Friday in the Salvadoran village of Sesori.

Although there is a chance that the dispute over security arrangements eventually might be resolved, it reflects overall political

NEWS ANALYSIS

positions far from the thin promise of peace that took form at the first peace talks in October 1984.

Tougher attitudes in President José Napoleón Duarte's government have arisen in part from growing hopes of military victory among Salvadoran Army officers and their U.S. advisers.

As army fortunes improved markedly on the battlefield over the last two years with increased U.S. military aid, these hopes have been expressed more frequently and openly than in the past. This has held forth the prospect of an indefinite war but one reduced to remote skirmishes.

In addition, Mr. Duarte's personal reaction to the rebels' kidnapping of his daughter, Inés Guadalupe Duarte Durán, last September, coupled with the military's dissatisfaction with his performance during that crisis, have hardened the atmosphere in San Salvador.

This has reduced the likelihood of compromise by undermining Mr. Duarte's fragile relationship with the military high command.

Mr. Duarte said Sunday that he still intended to be in Sesori on Friday for talks, whether or not the rebels appeared.

On Monday, in a speech celebrating El Salvador's 165th year of independence from Spain, he said, "My government will continue to wait, like a father for his prodigal son, to tell them that they must abandon armed conflict and join the democratic process."

On the rebel side, an announcement by guerrilla leaders late last year that they are seeking to unite in a single Marxist party has also thrown a continuing pall over the hope of compromise that followed 1984 peace talks at La Palma.

The announcement sharply diminished the stature of the Social Democratic civilians who have backed the insurgents. The civilian dissidents, citing the spirit of La Palma, had been speaking two years ago of possible participation in new elections organized under Mr. Duarte and his Christian Democratic government.

As a result of the hardening attitudes, government officials and rebel leaders alike were predicting little progress when they met here Aug. 21-23 to pave the way for the Sesori meeting. It would have been the first meeting between the two sides since a brief and disappointing session at Ayagualo one month after La Palma.

In three days of talks in Mexico City, the two sides could agree only on a date and a place, leaving an agenda and security arrangements for the later discussions this past weekend in Panama.

But almost immediately after the Mexico City contacts, the Salvadoran Army sent its Arce Battalion to occupy Sesori and the surrounding hills, declaring the area a military zone and introducing a new element into the debate over security arrangements.

The village, in the rugged northern San Miguel hills, has gone back and forth between rebel and army control for years.

The little town, close to rebel territory but not a stronghold of either side, could easily become a no-man's land for the occasion, they said, and permit guerrilla leaders and their civilian followers to attend without fear of attacks from the army.

Vice President Rodolfo Castillo Claramount, who headed the government delegation in Panama, said no government could relinquish sovereignty over part of its territory as the rebels demanded for the Sesori meeting.

AMERICAN TOPICS

Teacher Sounds Off On School Upkeep

The sometimes high-flown debate over how tax money is spent on public education in the United States was brought jarringly down to earth in a letter to The Washington Post by Kenneth L. Sipple, a teacher in Washington, D.C.

"I arrived for my first day back as a teacher in the D.C. Public School System ready for a successful year," Mr. Sipple wrote. "My room assignment was Room 424. The following is a description of Room 424.

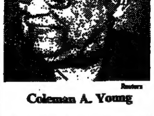
"Four blackboards and one bulletin board are completely covered with graffiti written in Magic Marker. The blackboard has no chalk tray. The two math instruction blackboards have been destroyed. Of eight windows (on the sunny side of the building), only one has a window shade. There are no handles to open the vent windows. There is no clock.

"The teacher's desk is without a top drawer, and neither of the other drawers can be locked. The metal closet has one door ripped half-open, creating a hazard, and it can't be used as a secure storage area. The lock on the door to the room is not in working order. Nowhere in the room is there a place where I can secure my personal belongings or those materials that are subject to theft.

"The summer has passed in which Room 424 was available for repair and cleaning. Room 424 is a disgrace in itself and to the D.C. public schools. We surely deserve better than this for our tax money."

Short Takes

Mayor Coleman A. Young, 68, of Detroit admitted that when he hooked an 18-pound (8-kilogram) king salmon in western Michigan waters he didn't have a fishing license. "Nope," he said. "Never had. Don't believe in



Coleman A. Young

them." The State Department of Natural Resources is investigating. Fishing without a license is a misdemeanor.

California, with a population increasing from the present 26.4 million to 30.6 million, will remain the most populous American state in the year 2000, the U.S. Census Bureau says. Texas and Florida will both surpass the current second-ranked state, New York, to take second and third place, the bureau predicts, with Texas growing from 16.4 million to 20.7 million, and Florida from 11.3 million to 17.4 million.

The Miss America Pageant last weekend omitted contestants' bust, waist and hip measurements for the first time since the contest's beginnings in 1921. Albert A. Marks Jr., the pageant chairman, said the statistics "serve no useful purpose" and have been denounced by women's groups.

Taxi drivers in Buffalo, New York, dress like "crumb bums," said Frank Hahn, director of the city license bureau, in starting a campaign to improve their appearance. Some city officials have urged a dress code for drivers. Heidie's, a chain of formal-wear rental stores, said it would give a used dinner jacket and matching trousers to any taxi driver who wants one. The first cabbie to apply, Nelson Krantz, said: "There are times you should wear one and times you shouldn't. On days when it's 90 degrees [32 centigrade] out, it gets quite hot in the cab, and you tend to get ruffled up."

Human laws lack jurisdiction over the vagaries of nature, Judge Donna Bowman of the Franklin County municipal court in Columbus, Ohio, ruled in the case of a bird that dived kamikaze-style down a chimney, scattering embers from a fire and landing dead in the living room of a house rented by Robert and Cathy Gessler. The landlady, Virginia Tilton, wanted them to pay for the damage. But Judge Bowman ruled that the damage was not the fault of the tenants and, indeed, could be related to the landlady's "failure to put a screen over the opening of the chimney."

—ARTHUR HIGBEE

International Herald Tribune
Published With The New York Times and The Washington Post

Paris and the Bombers

Europe struggles anxiously to keep clear of the Middle East's multiple wars and feuds. But the Paris bombings keep reminding France that it is not very far from Lebanon. What the terrorists want is to extend the battleground to Western Europe, and they want immunity from criminal prosecution there. They want the European governments to support their own factions and causes, and to oppose their enemies. Being weak, they use the most reprehensible of weapons to compel attention to their demands. For the Europeans, the challenge is to bring this despicable warfare under control without restricting their own people's civil liberties.

France has now imposed a visa requirement on all visitors but those from its European Community partners and its neighbor Switzerland. If that is a step backward from the European ideal of free movement, the blame surely resides with the terrorists. Of all the steps that France could have taken, this one strengthens the police without infringing anybody's rights. It will be a nuisance for some of France's visitors, but Americans, who insist on their own peculiar and complex visa requirements, are not in a position to complain.

In 1982 an American military attaché and an Israeli diplomat were assassinated in Paris. The French are holding in prison one Georges Ibrahim Abdallah, a Lebanese implicated in those killings. The current series of bombings is evidently intended to free Mr. Abdallah and two other convicted prisoners. This series began last winter when Jacques Chirac was leading the right in the parliamentary election campaign and was calling for sterner action against the bombers. Now Mr. Chirac, having won, is prime minister; the bombings that began again this month are clearly aimed directly at him and his authority. One bomb went off in the Paris City Hall, another in a police station, another in the basement under a Champs Elysées restaurant just as Mr. Chirac was about to announce anti-terrorist measures, and another in a suburban store.

Paris has an important history as a haven for political refugees and a sanctuary where they could continue their work. But that tradition was developed in a time when that kind of political work did not include murder. The French are now refining their rules of access, just as they are also increasing their cooperation with other Western governments working against the terrorists. For years the French had tried to work out their own special accommodation with the various contending political forces in the Middle East. But they insisted on civilized conduct, and that was a distinction, time has shown, that the bombers do not choose to make.

— *THE WASHINGTON POST.*

A Lopsided Equation

Nicholas Daniloff remains a hostage in Moscow and the United States has been forced for the moment to equate his status with that of an accused Soviet spy in New York. Their simultaneous release from jail, under identical terms, so far ratifies an obvious Soviet extortion. But at least Mr. Daniloff is relieved of grueling daily interrogations and life in a tiny cell. This is not the end of an acceptable deal, but it is an acceptable beginning.

With Mr. Daniloff in more tolerable circumstances, Americans negotiating for his freedom can dig in more firmly to resist his swap for the accused Soviet agent, Gennadi Zakharov. Dig in they must, for the KGB may be emboldened by this first American concession. Sympathy for one American in distress must now yield to a cold reckoning of the stakes. The taking of American hostages has become all too common; in the last few days, two more Americans were seized in Beirut. The perpetrators in Lebanon are elusive, but those in Moscow, who employ the powers of state for similarly crude ends, must be held responsible.

The Soviet leaders must be brought to understand that the legitimate pursuit of Soviet spies in the United States will not be equated with entrapments and indictments of innocent Americans in the Soviet Union. They also need to be shown that framing American reporters who try to penetrate Soviet society is particularly offensive precisely to those Americans — notably including Mr. Daniloff — who favor improved relations. Secretary of State George Shultz is right to believe that he should not "walk away and stop talking" to Soviet ministers. But neither can he just keep talking in the customary tone of voice. That talk needs to emphasize the serious damage that is done to Soviet-American relations when Moscow insists on prisoner parity. Mr. Daniloff's editor at U.S. News & World Report rightly insists that the "mirror image" treatment of the reporter and Mr. Zakharov must now be shattered.

It is not beyond the wit of diplomacy to devise an honorable solution, as was once done in 1978-79. Two Soviet UN employees were arrested for espionage, and the Russians, vowing to "play the same game," arrested an American businessman, F. Jay Crawford, for currency violations. Two weeks later, just as happened Friday, the prisoners of both nations were released to the custody of their ambassadors. Three months later, Mr. Crawford was convicted and deported from the Soviet Union. A month after that, the Soviet agents were convicted and sentenced to 50 years in prison. After five months, and only in a significant exchange for five imprisoned Soviet dissidents, the agents were freed.

The principle remains every bit as important as the person of Mr. Daniloff: the Daniloff and Zakharov arrests are not comparable. If the Reagan administration cannot maintain that principle, a president so eager to be known for standing up to the Russians would be heading for a summit meeting in a cloud of bluster.

— *THE NEW YORK TIMES.*

UN's Salvage Operation

For too many of its 41 years, the United Nations has been in danger of drowning in its own swamp of paper. Ungainly and ill managed, the organization clearly needs a trimmer staff churning out fewer documents. So says a committee of the UN's own experts, whose welcome if overdue report lies before the General Assembly that convened Tuesday.

But better news about the UN creeps slowly to Washington, where Congress threatens a devastating 70-percent cut of $208 million in annual dues from the United States. That could sink the organization, not correct its course, as President Ronald Reagan now recognizes.

At risk is the influence of the United States. The proposed cuts would violate a treaty commitment and reduce America's share of costs from 25 percent to 7 percent — less than that of the Soviet Union, Japan, and West Germany. Such a cut would also destroy America's valid claim for a larger say in budgeting.

As Secretary of State George P. Shultz now understands, America's demurral on dues to encourage reform has run out of control in Congress. Immediately threatened would be UN peacekeeping in Cyprus and Lebanon, which Washington favors but Moscow does not. Thoughtless cuts would also undermine the effort to promote a second term for the moderate secretary-general, Javier Pérez de Cuéllar.

In leading Congress to threaten deep cuts, Senator Nancy Landon Kassebaum, Republican of Kansas, did not intend to destroy the UN. The UN study team calls for a 15-percent staff reduction, more stringent budgeting and cutbacks in conferences and paperwork. These useful proposals need to be encouraged with a proper payment and a vow to look again next year.

Disappointment with much of the UN's work is no reason to destroy it. That impulse overlooks some recent votes against terrorism, hijacking and the Soviet occupation of Afghanistan and a sensible special session on Africa's food crisis. Indeed, these shifts owe something to the U.S. administration's criticisms, and to the alert diplomacy of its chief delegate, Vernon Walters, who has made good use of America's commitment to the organization.

The quickest way to yield the UN's forums to the Soviet bloc is to withdraw that commitment. Congress should heed the president, calmly evaluate the UN's cost-cutting and pay America's dues.

— *THE NEW YORK TIMES.*

Other Comment

A Dilemma for Mr. Chirac

The terrorist offensive [in France] has put the government of Jacques Chirac in a delicate position. Mr. Chirac is not only being challenged personally by the terrorists, but challenged in the field which traditionally has won him electoral support: security. The government finds itself reduced to the same powerlessness as were its predecessors. Never before has France been faced with such blackmail. This storm did not come from "cohabitation" but from international terrorism; it will be this storm that decides Mr. Chirac's destiny, and ours.

— *Libération (Paris).*

Espionage Is Not Summitry

Nicholas Daniloff said: "Let's be reasonable, let's be calm, let's be sensible and give the diplomats a chance to fashion an imaginative solution." He deserves a respectful hearing as U.S. anger rises over the probability that he and Gennadi Zakharov will be swapped. A nation that allows spying to get in the way of diplomacy is a nation that has confused the essentially trivial with the massively important. Mr. Daniloff himself sees the two separate tracks of summitry and espionage. American public opinion, too, should register the difference.

— *The Guardian (London).*

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OPINION

Has Soviet Policy Toward West Changed?

By William Pfaff

PARIS — Nicholas Daniloff has been the victim of an accident of contemporary politics, a bad accident, in which events may have escaped the control of those who launched the affair. The episode is not over, although Mr. Daniloff has been released into the U.S. Embassy's custody, and it raises a serious question about the coherence, the stability of Soviet policy today.

Anatoli Shcharansky, the dissident Soviet intellectual who was freed to emigrate to Israel in February, argues that the notable virtue of Mikhail Gorbachev as Soviet leader has been that he grasps the fact that history cannot be depended upon to solve problems for the Soviet Union.

Until now, ideology has served as an alibi: If all is not well now in the Soviet Union, it will be later. The socialist system must eventually come out in front of a historically condemned capitalism. Mr. Gorbachev is too smart, and too acquainted with realities outside the Soviet Union, to believe this. He recognizes that history needs to be helped along.

He understands that the Soviet Union must import advanced technology from the West, whether it does this legitimately or through espionage operations. He understands that the Soviet economy and administration must drastically be reformed — that Soviet productivity currently is half that of the Western industrial countries.

His lucidity about these matters threatens a reactionary party and government apparatus. French specialists raise the question, without being able to resolve it, of whether the security apparatus itself is setting itself against Mr. Gorbachev's reforms, or at least against their pace. There are precedents: Independent KGB initiatives were apparent under Stalin in his last days, and under Leonid Brezhnev. The hypothesis provides one explanation for the American journalist's arrest: that it was meant forcibly to alter Mr. Gorbachev's policy toward the West.

This is interesting speculation for scholars but dangerous stuff for policy-makers. Western leaders have repeatedly been tempted — or lured, deliberately — into concessions meant to support a supposed liberal or reformist wing of the Soviet government against supposed hard-liners. Some Western officials, on the other hand, have tried to do the opposite, with the argument that an unreformed Soviet Union is less dangerous than an efficient one.

Western governments in fact have neither sufficient knowledge of what goes on inside the Soviet Communist Party, nor sufficient capacity to understand what they do know, to attempt to manipulate domestic political forces in the Soviet Union.

Their lack of such an understanding was again evident in the recent comment by a U.S. official in Washington that the Daniloff case was designed "to pressure us into making more arms-control concessions in order to have a summit."

The Soviet leadership would have to be stupid indeed to think this was the way to get Washington to make concessions; and only a stupid American would ask the public to believe such a proposition.

The contrary is true. Because Mr. Gorbachev needs technology, arms limits and reform, some in Washington have concluded that he could be forced into concessions, and that a future summit meeting could be made into a victory for Washington and a public defeat for Moscow. This follows from the habit, which grows more pernicious with every year, of conducting U.S. foreign policy according to the sole criterion of how best to serve the political advantage of the president and party in power.

The Soviet Union will not allow itself to be "defeated" in negotiations with Washington if it has any power at all to prevent this. A primordial motivation of Soviet policy since World War II has been to obtain an acknowledgment of parity with the United States in world affairs. The Soviet government has sought a form of bipolar condominium of power and influence before the eyes of the world. This may be absurd; it may even seem pathetic; but it has dictated a certain manner of acting.

The business of a Western government is to deal with Soviet policy as it manifests itself in action. If it is Soviet policy to jail an American journalist on trumped-up espionage charges, the proper Western response is not analysis of the Soviet corporate mind but rigorous reprisal against the Soviet body politic. Soviet leaders themselves must be left to weigh their own motives against the consequences of their actions.

But minds that think only of victories and defeats in the diplomatic relationship of the two most heavily armed countries on earth are a menace. There are far too many of them in both Moscow and Washington. International relations are not a zero-sum game, in which what one wins the other must lose. The logical resolution of the zero-sum game is war.

The proper objective of diplomacy is mutual advantage, where both sides are left better off, if only by removing a factor of insecurity. It is not liberal sentimentality to think that political relations can be constructive. It is the hardest-headed realism, admirably expressed by a great conservative, Edmund Burke, in observing that "indeed every human benefit and enjoyment, every virtue, and every prudent act, is founded on compromise and barter."

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The Daniloff Affair Ended Gorbachev's Honeymoon

By Dimitri K. Simes

WASHINGTON — The case of Nick Daniloff provides a clear — and disturbing — picture of Mikhail Gorbachev in action. It shows him firmly in control of the Kremlin but surprisingly clumsy in using his immense power. It shows a man who is prickly toward the West and determined that the United States should treat the Soviet Union with respect. And it shows that he wants a summit meeting with Ronald Reagan, but not at the cost of appearing weak.

The Daniloff affair also illustrates the internal mechanisms at work in both U.S. and Soviet society that make it difficult to maintain friendly relations. We tend to see each crisis that disrupts the relationship — the Jackson-Vanik amendment that cooled détente in the 1970s, the shooting down of the Korean airliner in 1983, the murder of Major Arthur Nicholson last year, and now the arrest of Mr. Daniloff — as an isolated event. But they arise from basic traits in each society: the police-state core of the Soviet Union, and the freewheeling interest-group politics of America.

But the Daniloff affair was crucial for both Mr. Gorbachev and Mr. Reagan: It provided the sharpest test of wills yet between the new Soviet leader and his American counterpart. Mr. Gorbachev, it seems so far, has had the best of the battle.

Based on conversations with Soviet officials last week in Hungary and with senior U.S. officials Friday after Mr. Daniloff's release, I would offer some preliminary conclusions about Mr. Gorbachev's behavior in this instance:

Mr. Gorbachev is running the show. The arrest of Mr. Daniloff was personally approved by Mr. Gorbachev, two ranking Soviet officials told me in Budapest last week. Their testimony appears credible because the new Soviet leader is both firmly in control and personally involved in the conduct of policy toward the United States. With Mr. Gorbachev in command, any unauthorized move against Mr. Daniloff would have been political suicide.

The Gorbachev "charm offensive" has suffered a major setback. Arresting Mr. Daniloff on a trumped-up charge was a ruthless move, and Mr. Gorbachev must have known that it would be perceived that way in the West and undermine his carefully cultivated image. There appears to have been both a narrow immediate objective and a broader political purpose. The narrow objective was to gain freedom for Gennadi Zakharov, the alleged Soviet spy held in New York. But Moscow also wanted to show the United States that Mr. Gorbachev couldn't be pushed around by an assertive Reagan administration.

The sophisticated "Americanists" in the Kremlin aren't necessarily a moderating force. Mr. Gorbachev has gathered a high-powered group of advisers including Anatoli F. Dobrynin and Alexander N. Yakovlev, who served previously as ambassadors to the United States and Canada, respectively. They have drastically improved Soviet public diplomacy toward the West. But they took a very tough line in the Daniloff case.

Even after it became clear that the arrest was a political time bomb, the Kremlin did not retreat. On the contrary, it proceeded with a formal indictment on espionage charges. The Soviet officials I saw in Budapest told me that it was precisely Mr. Dobrynin and Mr. Yakovlev who recommended to Mr. Gorbachev that a tough response to the Zakharov arrest was in order.

Canceling the summit wasn't part of Mr. Gorbachev's game plan.

Mr. Gorbachev is angrier at the Reagan administration than U.S. analysts may have realized. There has been growing resentment among the Soviet political elite over Washington's refusal to accommodate the Kremlin's foreign policy initiatives. More generally, Moscow has been irritated at the Reagan administration's refusal to treat the Soviet Union as an equal superpower.

Whenever U.S. officials talk about signs of Soviet flexibility on arms control, they explain them in terms of Soviet weakness. President Reagan, in his August press conference in Chicago, specifically stated that Mr. Gorbachev's interest in arms reductions was rooted in Soviet domestic problems. And there have been frequent references by administration spokesmen to the success of "star wars" in forcing the Soviets back to arms talks.

This treatment of the Soviet Union as a nasty but declining giant touched a sensitive nerve in Moscow. A strong temptation has gradually developed to demonstrate to Americans and Russians alike that there is a strong boss in the Kremlin who can't be pushed around. From the Soviet standpoint, the unprecedented refusal of the U.S. magistrate in Brooklyn to release Mr. Zakharov on bail into the custody of Soviet Ambassador Yuri V. Dubinin was another deliberate slap.

It was important to get Mr. Zakharov back. But it was considered to be even more important to cut Mr. Reagan down to size. Nick Daniloff was a perfect target. He had worked in Moscow for five and a half years, longer than most American correspondents. That was bound to generate some suspicion. He was also an enterprising reporter with a wide range of contacts.

That is not to suggest that Mr. Gorbachev consciously decided to take an innocent American reporter hostage simply because it was an opportune moment. Chances are that when the KGB briefed the leadership before grabbing Mr. Daniloff, they claimed that he was guilty of spying, or at least, not less guilty than Mr. Zakharov.

There is little doubt that Mr. Gorbachev understood the political ramifications for the U.S.-Soviet relationship. But he probably overplayed his hand. He has never been the public-relations genius that some Western reporting suggested. Yes, his delivery is impressive. And the general secretary shows a considerable ingenuity in proceeding with new diplomatic initiatives. But the Soviet leadership still frequently commits serious blunders in coping with the West. In the Daniloff affair, the Soviets failed to anticipate the enormous outcry the frame-up of a American reporter would cause across the U.S. political spectrum.

Canceling the summit over Mr. Daniloff wasn't part of Mr. Gorbachev's game plan. If Moscow had wanted to find a way out of the summit, it could have found another pretext.

Ever since his accession, Soviet diplomacy has been walking a tightrope. On the one hand, Moscow did not want to allow Mr. Reagan to "deceive" the Western public by creating an artificial impression of superpower rapprochement while he pursued a hard-line policy. On the other, Mr. Gorbachev was anxious to avoid Yuri V. Andropov's 1983 mistake of taking the responsibility for abandoning arms-control negotiations. The Daniloff affair ends Mr. Gorbachev's honeymoon.

The writer, a senior associate of the Carnegie Endowment for International Peace, contributed this comment to The Washington Post.

America Must Help Make UNIFIL Work

By Jonathan Power

LONDON — At first the Americans insisted on UNIFIL, while the Israelis were indifferent to it and the Russians refused to pay for it. Eight years later the Americans seem careless about the force and have cut their contribution by half, the Israelis want it to stay, and the Russians have started to pay for it.

UNIFIL — made up of 5,800 soldiers from France, Ireland, Norway, Sweden, Italy, Finland, Ghana, Nepal and Fiji — is in a state of crisis. France, the largest contributor, has been talking about closing it down. It is losing soldiers at a rapid rate: 130 soldiers have died since 1978.

But a UNIFIL withdrawal would put more pressure on the fragile Lebanese civil government and lead to confrontation between the Israeli-sponsored South Lebanon Army and the militant Shiites of Hezbollah, or the Party of God.

UNIFIL, the UN Interim Force in Lebanon, was established to separate Israel from its main enemies. Yet until recently the Israelis have played cat and mouse with it, treating it with both indifference and hostility. Moreover, they have disobeyed UN Security Council resolutions that require the Israelis to withdraw completely from Lebanon.

The result is that UNIFIL has never been able to do the job it set out to do: to deploy its forces along the full stretch of the Israel-Lebanon border. It is restricted to an area just north of the border.

In spite of the continuing guerrilla activity against the Israeli occupation, the part of the south where the UNIFIL charter should operate is one of the calmer, more prosperous parts of Lebanon. With Israel out and the UN force fully deployed, the south could be a relatively settled region, giving some hope for a future of peace to the rest of Lebanon.

The continuing Israeli presence stirs the pot. It has fueled the wrath of the fundamentalist Hezbollah, which has turned on the UN troops and undermined the pro-UN leaning of the mainstream organization of the Shiites, Amal.

The United States, which helped create this imbroglio, seems to be walking away from it. The Reagan administration at every turn has refused to lean on Israel. It made the serious mistake in 1982 of mounting its own multinational force composed of American, British, French and Italian soldiers. After 300 of them were killed by a bomb, they were quickly withdrawn.

The U.S. administration then tried to get the United Nations to take over in Beirut, only to meet a Soviet veto.

Now, seemingly disillusioned, America appears to care little about the UN force that is in existence. Congress is being lobbied to restore the 50-percent cut in America's UNIFIL contribution, but the plea is not from the heart. It is being left instead to Israel to sing UNIFIL's praises.

Meanwhile, a total financial crisis is forestalled partly through the generosity of the troop-supplying nations and partly because, to everyone's surprise, the Soviet Union has decided to start paying its share of the support costs.

Southern Lebanon is not a sideshow. It is the one place in the Middle East where Moslem activists can get nose-to-nose with Israel.

The Iranian government and the Hezbollah accuse UNIFIL of protecting Israel. They miss the mark. Only if UNIFIL were fully deployed could it do that and help bring peace to Lebanon.

It is time Washington woke up. If things are left as they are UNIFIL will fall to pieces. If that happens, full-scale hostilities will erupt between extremist Moslems and Israel. That will make the Palestine Liberation Organization-Israel battle of 1982 look like a Boy Scouts' cookout.

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LETTER

Aping the Rambo Image

An odd parallel can be seen between recent terrorism and the proliferation of war hero films. This is how others are seeing the United States. We may joke when we see a big hulk wielding a machine gun and killing the enemy. How different are such scenes to the mess after Karachi?

ROGER GUY.
Gentilly, France.

A Chance In Korea for Democracy

By Flora Lewis

SEOUL — A bomb explosion at the airport here on Sunday was obviously intended to tarnish the gloss South Korea expects from the coming Asian Games and the 1988 Olympics. It only serves to highlight the country's achievements, which President Chun Doo Hwan is trying to use to confound his critics.

Yet even his supporters admit he is widely unpopular. The country has outgrown simplistic claims that only an authoritarian boss can bring it safety and prosperity. The changes in a generation are staggering. Seoul is no longer a Third World city. It blazes and bustles with the country's ambition to join the club of advanced nations. This is also a source of its tensions, because even leading officials recognize that yearning isn't only about economic competence; it requires a political base of popular consent — in a word, democracy.

Hyun Hong Choo, a National Assembly spokesman for the ruling Democratic Justice Party, says, "We learned from the Philippines that you should listen and respect public opinion." He lists a lot of differences between the two countries, including, significantly, that here there has not been a martyr like Benigno Aquino. "If there were," he said, "people would take to the streets and we would be toppled."

That is ironic, because the opposition leader Kim Dae Jung has been the object of official assassination attempts four times over the years, according to him. He says U.S. pressure saved his life twice, in 1973 when Korean agents kidnapped him from Japan, and in 1980 when he was sentenced to death on the charge of inciting riots put down with much bloodshed in Kwangju.

Yet many people in South Korea now blame the United States for blocking progress toward a democratic regime. The reasons offered for growing slowly, not rocking the boat, have been the same for years — the threat of attack from an implacably hostile, heavily militarized North Korea, and the need for economic development. The reasons for hurrying up are that a fully literate, nationally conscious, ambitious people are not satisfied with a Third World political system and won't hold still for it very much longer.

A formalistic argument about a new constitution has been devised to represent the underlying tug-of-war over a possible transfer of power. The government proposes a British-type parliamentary system. The opposition demands a strong president elected directly by popular vote.

This veils the basic struggle. The opposition is convinced that as things stand, Mr. Chun would rig parliamentary elections, while it figures a presidential campaign could mobilize voters in such a way that election fraud could be effectively challenged in the streets — in what President Corazon Aquino of the Philippines calls "people power."

The central questions are really whether Mr. Chun and his supporters, especially in the military, would dare to risk losing power by election, and whether the rival opposition candidates can run a united, peaceable campaign. Kim Young Sam, the other opposition leader, has been cooperating with Kim Dae Jung but the government hopes to split them.

American officials prefer Kim Young Sam as the more moderate, more tractable of the two, and it is said that the hard-line military are so against Kim Dae Jung they would stage a coup to keep him from power.

The stakes are high. Koreans can be volatile and violent. Upheaval could provide an opening for an attack from the North, and South Korea is pivotal for security in Northeast Asia. Anti-Americanism is growing, especially among the young, who see the United States as the main bulwark of the status quo.

Yet the impression I get is that there is time and room to arrive at a generally acceptable outcome. It will take delicacy and good sense on all sides. The United States must be seen to be encouraging the move to democracy without blatantly interfering — an oxymoron, perhaps.

But the key is to nudge the parties toward a transition with measures that would bring confidence in fair elections. That will be hard, but it doesn't seem impossible, as came to be the case in the Philippines.

There are still 40,000 U.S. troops in South Korea. America's investment is enormous, in moral as well as in political and strategic terms. The demand for democracy is evident. Here is a case where foresight and principle converge for American as well as Korean interests.

The New York Times.

IN OUR PAGES, 75 AND 50 YEARS AGO

1911: A Firearms Law

NEW YORK — Regarding New York's law on the carrying of firearms, the Baltimore Sun says: "If this law can be enforced it will do more to prevent murder than all the schemes of the reformers. Other States may follow suit with laws limiting the sale of firearms and enforcing statutes prohibiting the carrying of concealed weapons." The Washington Post remarks: "Congress should levy a heavy tax on the manufacture of deadly weapons that can be concealed on the person, and every State should adopt the English law on the subject and rigidly enforce it. Then murder would gradually go out of fashion." The Richmond Times-Dispatch adds: "New York has been forced to realize the necessity of putting a stop to the carrying of concealed weapons. Resort to the pistol has become shockingly frequent."

1936: Newsmen Arrested

PARIS — John T. Whitaker, correspondent of the New York Herald Tribune in Spain, and three other newspaper men were arrested by Spanish insurgents at Carceres [on Sept. 16]. They were charged with traveling around Spain without proper military passes. Whitaker, who arrived in Spain last week, was traveling with H.R. Knickerbocker and Floyd Gibbons, of the Hearst Press, and O'Dowd Gallagher, correspondent for the London "Daily Express." The four had left Burgos headquarters of the insurgent government [on Sept. 12] with the intention of proceeding to the Talavera front. Their arrest is the latest in a series of repressive measures taken against foreign correspondents. Spanish Fascists have expelled correspondents of the London "Times," "Daily Express" and "Morning Post."

INSIGHTS

A Chance in Korea for Democracy

By Flora Lewis

Black Students Give Elite Colleges a C -

At Many Schools in U.S. East, Lower Enrollments Reflect Social Difficulties

By Keith B. Richburg

Washington Post Service

WASHINGTON — At age 18, Rena Johnson, an honors student at Georgetown Visitation Preparatory School, a private high school in the District of Columbia, was a perfect candidate for an education at one of the East Coast's elite colleges.

Miss Johnson, who is black, settled on Wellesley College in Massachusetts. But her experiences there were not what she expected. She says she discovered two distinct worlds at Wellesley — one black and one white — and did not feel comfortable in either.

She often found herself ostracized by fellow blacks for not "joining the club." And on trips into nearby Boston with her white friends, she occasionally encountered racist remarks from whites.

"In my dormitory, there were a lot of black students, and I would notice they would all sit together to eat," she recalled in an interview. She stayed with her newfound white friends, and the other blacks "criticized me because I didn't feel duty-bound to be with them."

"A lot of black students were afraid to feel comfortable at Wellesley because that was not the environment they were used to," she said. "They had the crew-neck sweaters and the corduroy pants, but at the same time, they didn't feel comfortable."

Miss Johnson made the switch. After two years, she transferred to Howard University in Washington, a highly rated black school.

"People were much happier," she said. "My first day, I saw a white student looking very forlorn, and I said to myself, 'Ah-ha! Now you know what it is to be a minority.' I said, 'This is more comfortable; I'm going to enjoy this.'"

Long considered the educational mecca for the nation's best and brightest, the Eastern elite schools pose complex problems for blacks. On many of these campuses the number of blacks is shrinking.

Moreover, feelings of isolation and alienation that many black students experience at predominantly white schools are heightened at some of the nation's oldest and best-known institutions.

ACROSS the nation, educators and black leaders are decrying a sharp drop in the number of blacks enrolled in college. Despite impressive gains since the civil rights struggles of the 1960s and early 1970s, when most colleges set ambitious minority goals and launched new Afro-American studies programs, fewer black high school graduates are choosing college, and of those who do, more are dropping out.

Nationally, black college enrollment peaked in 1976, at 10.5 percent, but then the growth stopped. According to last year's report of the American Association of State Colleges and Universities, 30 percent more blacks are graduating from high schools, but the number going on to college has dropped 11 percent.

Educators and black leaders have called the trend alarming and have labeled it a crisis for the black community. The headline in one education trade newspaper called it a "time bomb."

A few elite schools are stepping up the pace, enrolling more blacks than they did in the 1970s. Vassar College's incoming class this month will be 10-percent black, and Brown University's will be 8-percent black.

But many elite schools lag far behind national trends. At Boston College, for example, the entering freshman class will be just 3 percent black. But even that is an improvement; the class graduated in 1980 was only 2 percent black.

Other elite schools have lost ground. Harvard University's incoming freshman class will be about 6.8-percent black. The 1975 class was 7.6-percent black, and the 1981 class was more than 8-percent, according to admissions office figures.

With other schools the problem is keeping the black students they have. The Massachusetts Institute of Technology was chided in a recent study, first cited in The Boston Globe, by a former professor who found that 27 percent of its blacks had dropped out in an eight-year period and another 60 percent had achieved a grade level of C or worse.

> **'My first day, I saw a white student looking very forlorn, and I said to myself, Ah-ha! Now you know what it is to be a minority.'**
>
> *— Rena Johnson a black student who switched schools*

EDUCATORS and admissions officers cite several factors that affect elite schools more than others.

For one thing, they are often isolated in small, mostly white communities of Vermont, New Hampshire and Massachusetts without a natural geographic pool of available black students from which to draw. The University of Michigan, by contrast, has had measurable success in black recruiting partly because it is near Detroit and Chicago.

Elite schools are also expensive, pricing themselves right out of the range of many blacks.

Studies by the College Board, the American Association of State Colleges and Universities and others have directly tied blacks' college enrollment to the availability of financial aid, and student aid has not risen as fast as college costs since 1980.

Elite schools have been affected by a trend among some other colleges to grant merit scholarships to academically talented students. This practice, which has been derided by some elite schools as an effort to "buy" top students, has led to many blacks' opting for full scholarships at lesser-known schools.

Also, a string of unrelated nasty incidents has given some elite schools unwanted publicity regarding their race relations. At Dartmouth, a rightist student-run publication, the Dartmouth Review, has raised racial animosities with its biting satires about affirmative-action programs. At Brown last year, name calling, bottle throwing and the late-night destruction of the school's Third World Center by vandals led hundreds of students to rally against racial harassment.

Some black educators blame the colleges for not doing enough to attract more black students, despite the obstacles.

"I think the biggest problem the Ivy League and elite schools face in attracting minority students is that many of these schools have not been able to provide a wholesome environment," said Clarence Williams, equal opportunity director and an assistant to the president of MIT.

"There are first of all virtually no black faculty members," he said. "There are no role models which would allow black students to feel at home. The second thing is that white institutions have not learned, as black institutions in the South have learned, how to provide a supportive community. Minority students must have many opportunities to develop friendships."

EVEN those elite schools that have achieved some success recruiting blacks have come in for another set of criticisms: that they are recruiting only the gifted and affluent black students, who would have succeeded in any case, and not really reaching into the black community.

"Those schools really aren't taking high-risk kids," said Frank Matthews, a George Mason University law professor and the editor of the magazine Black Issues in Higher Education.

An increasing number of the most gifted black students are turning to the historically black colleges and universities. As educators decry and debate the nationwide decline in the number of blacks attending college, these schools have experienced a slight upswing in enrollment.

"There's been a lot of black kids having such a hard time at predominantly white schools that they are going to the historically black schools as a 'safe haven,' so to speak," Mr. Matthews said.

Jacqueline Fleming, a psychology professor at Barnard College, found after a seven-year study that black students perform measurably better at predominantly black schools than at predominantly white ones. In her book "Blacks in College" she says that black intellectual development is often "thwarted" by the isolation blacks feel on white campuses.

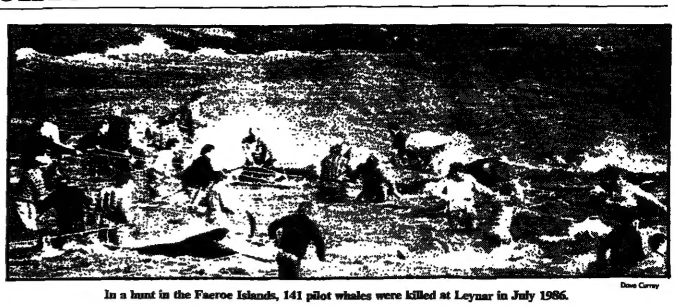
A similar finding came from Barry Beckham, director of the graduate writing program at Brown, in a book he edited called "The Black Students' Guide to Colleges."

In the introduction he writes: "We don't assume that a school is only good for black students if it offers separatist and segregationist facilities. But we do feel that black students, particularly on predominantly white campuses, are concerned about their psychological as well as academic survival. The general climate, the social life, and the kind of organizations that relate to their own cultural background are matters central to black students' emotional well-being."

Miss Johnson stayed at Howard to complete medical school this year.

"Less than half the black premeds who went to Wellesley are now in medical school," she said.

A staff researcher, James Schwartz, contributed to this report.



Dave Currey

In a hunt in the Faeroe Islands, 141 pilot whales were killed at Leynar in July 1986.

In the Faeroes, End of the Whaling Idyll

By Francis X. Clines

New York Times Service

THORSHAVN, Faeroe Islands — When Birgir Danielsen was a boy 50 years ago, the word of a community whale kill was of an order of excitement that combined death and sustenance, festivity and tradition, amid the steel-blue sea cradling this archipelago's wild beauty.

"I would sail out with my father for a few hours to help the others herd the whales in toward shore for the killing, then the cutting and sharing in the meat, and a celebration with dancing," said Mr. Danielsen, a Faeroese business executive who still likes salted blubber each morning for his breakfast vitamins and a pilot whale steak once a week.

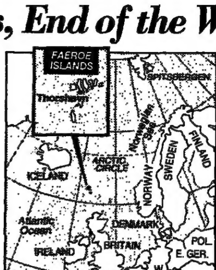
"But the boyhood idyll is gone," he said. "Now, I hear about a sighting, I jump in my Peugeot to where they're beached, help with the killing and selecting and I'm back in an hour or two. The idyll doesn't exist anymore."

That is exactly the point of the environmentalists who have congregated here like missionaries in recent years, brandishing science as much as righteousness as they condemn the modern kill as a gross act of leisurely, hedonistic waste.

Critics who have stalked the hunters stalking the whales have described numerous incidents of gratuitous brutality and bravado with gaffs and high-speed motorboats. They measure the turmoil and communicative squeals of the pilot whales herded in for the traditional open slaughters.

Allan Thornton, director of the Environmental Investigation Agency, said, "The whales' cries as they are slaughtered have caused some hunters to stop taking part in the kills." The agency is a private group sponsored by the International Fund for Animal Welfare, which infuriated Faeroese villagers a year ago by darting ahead of the hunters and sounding horns to herd some doomed whales back toward sea.

Kjartan Hoydal, a Faeroese who savors his right to kill and eat whale, is a scientist who is director of the government's fisheries department. He patiently defends the Faeroese record in the hunt from the persistent environmentalists. Even in these high-income times rooted in the islands' booming, modernized fishing industry, he insisted, the whale hunt still serves the same subsistence need of harder-pressed inhabitants as it did after the Norsemen sailed in a millenium ago.



Environmentalists and residents of Thorshavn are in conflict over community whale kills in Faeroe Islands.

The Faeroes are a chain of 18 islands isolated in the North Atlantic, rising in vertical green triumph from the sea. The Faeroese, proud of their independent, home-rule relationship within the kingdom of Denmark, speak a language derived from Old Norse.

WITH no kills abroad on a sunny weekend, the islands offered the serenity of space travel. The people reflected the peace of those who live in a kind of hilly ocean pasturage set hard amid the elements, equidistant from the coasts of Scandinavia, Scotland and Iceland.

The new whaling regulations might be measured within the nation's canny history of adapting to outside challenges. They include the requirement that before a whale's spinal cord is severed its carotid artery must now be cut to speed death, as in an abattoir.

Mr. Hoydal says antiquated spears now have been banned and clumsy gaffs restricted, with more effective beaching of the whales required where the slaughter can be more lamb-like than in the frenzy of an armada of hunters hacking about the open bays.

Environmentalists such as Mr. Thornton say these changes are cosmetic and unenforceable amid the passions of a crowd taking to the kill. He is pressing the question of whether the slaughter of any whales should be tolerated. The average lately is 2,400 slain a year in the islands, which have a human population of 46,000.

"An escalation in the opposition to the pilot whale hunt appears inevitable," Mr. Thornton wrote earlier this year as other critics threatened a boycott of Faeroese fish products — an alarming possibility for a $375-million annual industry that produces 97 percent of the islands' export trade.

Mr. Danielsen, in regretting the lost idyll of his boyhood hunt, is especially sensitive to the boycott threats since he is director of Faeroese Seafood, a cooperative of 160 major fish producers. "I don't love all the environmentalists," he said, "but in a way we owe them a bit of thanks. It is time to show the world we can change."

He proposes research for a better killing tool, much stricter enforcement of humane beaching procedures and a fairer, less wasteful sharing of the meat among the population.

The environmentalists arrive now as determinedly as the pilot whales that eat the squid, which are fleeing still other predators. They poke through garbage dumps and measure the whale meat left rotting after a community kill. They measure the size of the brains of the whales gaffed and decapitated in the kill, stressing the pilot whale's friendly behavioral intimations of high intelligence when studied in captivity.

All this may make the killing more poignant, but even Mr. Danielsen does not want to yield entirely.

"We have to admit we are not alone in the world," he said. "But bear in mind, there will always be an open slaughter and you can always see the blood, the same as inside the slaughterhouses of the world."

U.S. Conservatives Push Reagan on Daniloff Case

By Lou Cannon

Washington Post Service

WASHINGTON — President Ronald Reagan is coming under increasing pressure from conservative allies who say they fear that administration desires for a summit meeting may lead the president to trade an accused Soviet spy for an American journalist, Nicholas Daniloff.

"These people are trying to back the president into a corner," a senior White House official complained Monday, referring to conservatives pressing Mr. Reagan to take a firmer stand on the case of Mr. Daniloff, the Moscow correspondent of U.S. News & World Report. "It's putting a diplomatic tool in Soviet hands."

Representative Jack F. Kemp, a New York Republican, reflecting the growing conservative militancy, said Monday that Secretary of State George P. Shultz should refuse to hold his scheduled meeting here Friday with the Soviet foreign minister, Eduard A. Shevardnadze, unless Mr. Daniloff has been unconditionally freed.

"A summit is not as important as the principle involved where U.S. hostages are concerned," Mr. Kemp said.

His views were echoed by other prominent conservatives on Monday, but they asked that their views not be attributed to them. Some political appointees in the administration also expressed dismay over the White House handling of the Daniloff case.

The White House spokesman, Larry Speakes, said Monday that Mr. Shultz plans to have the meeting with Mr. Shevardnadze and to raise the Daniloff case as the first item of business.

"The Daniloff matter is an issue of continuing and increasing concern to the United States," Mr. Speakes said. "Until Nick Daniloff is free, the U.S.-Soviet relationship will be businesslike, but it will not be business as usual."

That statement, similar to many by White House officials last week, has failed to satisfy conservatives inside or outside the administration. Many of them maintain that the eagerness of Mr. Reagan and Mr. Shultz for a new U.S.-Soviet arms agreement has made Mr. Daniloff's freedom a side issue.

Conservatives suspect that the arrangement last Friday — in which Mr. Daniloff, 51, and the accused Soviet, Gennadi F. Zakharov, were released to the custody of ambassadors in Moscow and New York — was not an "interim step" as described by Mr. Shultz but the first step in a deal to trade the men, both of whom have been accused of spying.

[In New York, Mr. Zakharov denied Tuesday that he was involved in espionage in the United States and said that he was the victim of a plot by the Federal Bureau of Investigation, The Associated Press reported. He spoke at the Soviet mission to the United Nations.]

White House officials continued to insist Monday that conservative alarm was misplaced and said that Mr. Reagan had no intention of simply swapping Mr. Zakharov for Mr. Daniloff. But they said the president, Mr. Shultz and the national security adviser, John M. Poindexter, all believe that it would be counterproductive to boycott previously scheduled U.S.-Soviet meetings.

"Instead of using the Soviet tactic of walking out, we're going to go to these meetings and raise the Daniloff issue," an official said. He added that Mr. Reagan probably would meet with Mr. Shevardnadze on Friday and "give him a piece of his mind."

Vice President George Bush, defending the administration's position, said that Mr. Daniloff "fortunately is not rotting away in a KGB jail."

[The chief U.S. arms negotiator, Max M. Kampelman, said Tuesday that Moscow had seriously damaged major power relations by the "hostage-taking" of Mr. Daniloff, United Press International reported from Geneva.

[Mr. Kampelman raised the Daniloff issue on returning to Geneva for a new round of arms talks beginning on Thursday.

[The Soviet deputy leader of the arms talks delegation, Alexei Obukhov, did not mention the affair on his arrival shortly before the American negotiating team arrived. Mr. Obukhov instead reiterated Moscow's demand for a halt to the Strategic Defense Initiative before any agreement on reducing offensive nuclear weapons.]

■ Soviet Plays Down Case

The Soviet Union is seeking a quiet solution of the Daniloff case and does not believe it should affect high-level U.S.-Soviet talks, a Foreign Ministry spokesman said Tuesday, Reuters reported from Moscow.

"The Soviet side would be happy to have the case solved as soon as possible and happy not to have the case at all," the spokesman, Boris Pyadyshev, said. "The case should not hamper U.S.-Soviet relations, which are at a rather low level even without that case."

He said the case was an "insignificant matter" compared with issues in U.S.-Soviet relations, such as reaching an accord on arms control.

Camera Press

Jack F. Kemp

■ Link to Lebanon Hostages

The Islamic Jihad on Tuesday linked the fate of its American hostages in Lebanon with Mr. Daniloff, Reuters reported from Beirut.

The group, in a typed statement delivered to an international news agency in Beirut, accused President Reagan of misleading the American public.

"It seems the American government and Reagan personally are fooling the American people," the statement said. It said the United States made concessions in the case.

Four days ago the sister of an Associated Press correspondent, Terry Anderson, one of the three Americans reportedly held by Islamic Jihad, urged Washington to negotiate for the release of hostages in Lebanon as it had negotiated for Mr. Daniloff in Moscow.

Singapore Cautions Foreign Publications

By Michael Richardson

International Herald Tribune

SINGAPORE — The government says it will restrict the sale of any foreign newspaper, magazine or other publication that it considers to be persistently meddling in domestic politics.

A spokesman for the Ministry of Communication's information division said Monday that if foreign publications continued editorial practices similar to those that Singapore had objected to in the past, "I would say that definitely the amended law will be applied."

Under amendments to the 1974 Newspaper and Printing Presses Act that took effect early this month, anyone illegally selling or distributing copies of a restricted publication is liable on conviction to a fine of up to 10,000 Singapore dollars ($4,592) or a prison term of up to two years, or both.

Some diplomats see the move as an attempt to muzzle foreign press criticism of Prime Minister Lee Kuan Yew's government at a time when the economy is in recession for the first time in more than a decade and unemployment and political discontent have increased.

One said Tuesday that the controls would "put the foreign press on notice" to exercise great care in what it said about Singapore. "It is intended to promote anodyne reporting," he added.

But officials contend that bland coverage is not the intent. They say that Singapore welcomes divergent views and that the authority to restrict distribution is preferable to a total ban.

Shortly before the amendments were passed by Parliament, Wong Kan Seng, minister of state for communications and information, said that the "vast majority" of the more than 3,700 foreign publications available in Singapore were reporting local events objectively and fairly.

He said that the foreign press was welcome to operate in Singapore but that "we expect them to report events, government decisions and policies objectively and accurately and not to resort to distortions just because they do not agree with us."

During debate in Parliament on the amendments, the two opposition members in the 79-seat house asserted that the government was trying to stifle the free flow of information.

However, Mr. Wong and other officials asserted that a few publications had persistently resorted to slanted writing to manipulate public opinion and that this had prompted the government to amend the act. The act originally had been passed to prevent local media from falling under outside control.

Mr. Wong said that since 1974, sales of foreign publications in Singapore had risen and that the total circulation of major foreign dailies and weeklies, including Asiaweek, the Far Eastern Economic Review, Newsweek, The Economist, Time, The Asian Wall Street Journal and the International Herald Tribune was about 59,000.

All these publications, except Asiaweek and Newsweek, are printed in Singapore or soon will be.

Mr. Wong asserted that the seven were dependent on the Singapore market to a great extent and were almost like local papers.

Therefore, he said, there was a strong profit motive for them to try to use domestic issues to increase their circulation.

He maintained that the new law would discourage this because any offending foreign publication would find its profits cut "because a reduction in circulation will affect advertising revenue."

Privately and in some public references, Singapore ministers and other officials have made it clear that they have been very unhappy with coverage of a number of local issues by the Far Eastern Economic Review and The Asian Wall Street Journal.

The Journal was found guilty of contempt of court in Singapore late last year for publishing an editorial questioning the independence of Singapore's judiciary from government control.

Some of its staff members were fined, and its editor, Fred Zimmerman, apologized to the High Court for any contempt committed.

The Review is alleged to have promoted anti-government feelings in Singapore by putting much of the blame on the government for the economic downturn, portraying Malays as a disadvantaged minority, siding with the political opposition and implying that the government had misused its powers to detain people without trial.

Mr. Wong said that as a small, multiracial and multireligious state made up of Chinese, Malays, Indians and others, Singapore was vulnerable to the effects of divisive or distorted reporting.

He said that stability had to be preserved if the country was to sustain investor confidence and economic progress.

Under the law, the minister of communications and information can restrict the sale or distribution in Singapore of a foreign publication that has been officially declared to have engaged in domestic politics.

The spokesman for the Ministry of Communication's information division said the minister would determine the number of copies permitted to be sold and the period of restriction. Each authorized copy will be officially stamped.

He said it would be left to the offending publication and the authorized distributor to decide how to apportion copies between individual subscribers, corporate customers, newstand sales and other outlets.

These copies, he added, may be freely passed around. Copies of articles also may be made, provided they are for personal use.

Under the law, persons entering Singapore with a restricted foreign publication will have to declare it to customs.

But the spokesman said that only those carrying more than five copies would be liable to prosecution for possessing them for sale or distribution.

Anyone in Singapore subscribing to a restricted foreign newspaper, except through the authorized distributor, will be liable on conviction to a fine of not more than 2,000 Singapore dollars, imprisonment for up to six months or both.

Francis T. Seow, president of the Law Society of Singapore, said in a statement issued May 21 that the phrase "engaging in the domestic politics of Singapore" was not defined in the amended legislation and that this would result in "subjective interpretation and implementation."

Mr. Wong said, however, that the decision to restrict would not be made lightly.

Soviet Aide Is Killed In Pakistan

The Associated Press

ISLAMABAD, Pakistan — A Soviet military attaché was shot to death in his car on Tuesday by a man who had been seeking to emigrate to the Soviet Union, Pakistani government officials said.

The officials said Colonel Fyodor Gorenkov, an assistant military attaché at the Soviet Embassy, was killed after stopping his car to talk to a man.

The attacker was overpowered by passers-by and handed over to police, the officials said.

[The Soviet news agency Tass named the killer as Zafar Ahmedam, Reuters reported from Moscow.

[Tass identified Colonel Gorenkov as the acting military attaché, and said he was killed by two shots fired at point-blank range as he drove home from the embassy.

[It said Colonel Gorenkov's wife and daughter were also in the car, but escaped unhurt.]

Pakistani officials said the attacker was from Lahore, in eastern Pakistan, and had been trying to emigrate to the Soviet Union for some time.

He recently went to Bangladesh in an attempt to get a visa, they said.

They said he appeared to be mentally disturbed.

It was the second killing of a foreign diplomat in Pakistan in three days.

Iraq's deputy consul-general, Nathal Abdul Salam Abdul Latif, was killed when a bomb exploded in his car Sunday.

European Foreign Ministers Approve Limited Sanctions on South Africa

Steven J. Dryden

International Herald Tribune

BRUSSELS — The European Community foreign ministers approved Tuesday a watered-down package of economic sanctions against South Africa that several member nations criticized as ineffective.

Several officials said the community had undermined its credibility by failing to agree on the full list of sanctions drawn up at the summit meeting of EC leaders in June.

The expressions of disappointment followed final approval by EC foreign ministers on Tuesday of a ban on imports of South African steel, iron and gold coins, and new investments in the country.

Because of objections from West Germany and Portugal, a ban on imports of coal was removed from the sanctions list. Discussions will continue in the coming months to try to achieve an agreement on coal.

Coal was considered the most important item on the list. The value of South African exports of coal to the EC was $1.26 billion in 1985, while exports of iron, steel and gold coins were together worth about $566 million.

The severity of the measures also was limited by the need for national and EC experts to examine the legal basis for bans on new investment and imports of gold coins.

EC officials said they could not predict when the bans could come into effect.

The ban on new investment itself was seen as more of a symbolic gesture than a punitive measure since the political turmoil in South Africa has discouraged businesses from risking involvement in the country's economy.

Sir Geoffrey Howe, the British foreign secretary, who chaired the ministers' meeting, praised the agreement as a "clear conclusion" that was one more in a series of signals sent by the EC to South Africa.

He said he disagreed with what he described as the "Jericho school of thought," which holds that one "trumpet blast" by the EC will cause the "walls of apartheid" to collapse.

"I fear we're going to have to argue this case for some time to come," Sir Geoffrey said.

Several of the ministers said after the meeting that it was better to have agreed on a limited package of sanctions than on nothing at all.

However, they expressed disappointment with the elimination of coal from the list.

An Irish official said that the agreement "wasn't the signal we wanted to send."

That signal was that if South Africa did not respond to the EC's demands to begin dismantling the apartheid system and free political prisoners, it would face substantial consequences.

■ Kohl, Thatcher Doubtful

Prime Minister Margaret Thatcher of Britain and Chancellor Helmut Kohl of West Germany expressed doubts on Tuesday that the sanctions against South Africa would have any effect, Reuters reported from Bonn.

The two leaders, who are meeting in Bonn, made it clear they had agreed to join in the measures against Pretoria only for the sake of European unity and not because they supported them.

They said they placed much more faith in the value of positive measures to bring about change in South Africa than punitive measures.

■ ANC Assails Measures

An official of the banned African National Congress was quoted in Brussels as saying that the EC vote has left Europe "covered in shame," Reuters reported from Johannesburg.

The Belgian news agency Belga said that Godfrey Motsepe, the South African guerrilla organization's representative to Belgium, the Netherlands and Luxembourg, added: "We have seen capitalist greed sink below the most elementary morality."

He said that Europe had signaled to the congress that it should use all the means at its disposal, including the most violent ones, to pursue its aim of rule by the black majority in South Africa.

In Johannesburg, Foreign Minister R.F. Botha said Tuesday that South Africa was considering countermeasures against the EC.

He said that South Africa would not "stand idly by while the livelihood of our work force is jeopardized."

ARTS / LEISURE

Works by Lorca, Triana: Spanish Code of Honor

By Michael Billington

LONDON — Ever since the demise of Sir Peter Daubeny's World Theatre Seasons in the mid-1970s, London theater has suffered from a crippling insularity. One of the few houses to maintain an internationalist policy has been the Lyric Hammersmith, which three years ago invited Yuri Lyubimov to direct Dostoyevsky's "Crime and Punishment." Now it is enjoying a similar triumph with a stirring, exhilarating production of Federico García Lorca's "The House of Bernarda Alba" directed by the great Spanish actress Nuria Espert, designed by Ezio Frigerio and starring Glenda Jackson and Joan Plowright.

A lot of the production's success has to do with its visual impact. Frigerio (Giorgio Strehler's regular designer in Milan and Paris) has come up with a stunning set: a flagstone floor, a towering wall of crumbling stone inset with tiny, barred windows, a distant white canopy to keep out the fierce Andalusian sun. It suggests, simultaneously, a prison courtyard, a convent and an insane asylum, and it is an entirely apt setting for Lorca's play about the bottled-up passion and frustration of the five walled-in daughters of the widowed, tyrannical Bernarda Alba.

The tragedy springs from the fact that Adela, the youngest daughter, has defied convention to sleep with the groom reserved for her eldest sister, Angustias. But Lorca's play is also a powerful poetic statement about the plight of Spanish women trapped by history, tradition, the code of sexual purity and an inescapable sense of fate.

Espert's production makes nonsense of the old claim that Lorca is untranslatable and unactable in English. Robert David Macdonald's translation is springy, alert, even humorous: "The only man a woman should look at in church is the priest, and then only because he's wearing a skirt," says Bernarda Alba. But the production brings out Lorca's sense of the tragic as well as the absurd. While we hear men singing as they go off to harvest, the sisters crouch over their sewing machines in the courtyard like so many worker ants. And when the body of a woman who has sinned is dragged through the streets and hauled over coals of fire, Bernarda Alba lets out an exultant howl of relish that says everything about the vengefulness of the Spanish code of honor.

THE BRITISH STAGE

The actresses create a complete world on stage. Jackson's Bernarda Alba is like some snarling leopardess fiercely protecting her brood and hypocritically pretending to the last that the errant Adela died a virgin. Plowright is brilliant as the servant, Poncia, chained to the family by her past but aware of a world of peasant gaiety outside. Amanda Root as the freedom-hungry Adela and Patrica Hayes as her mad, imprisoned grandmother give sterling performances, proving that Lorca (who wrote this harrowing play shortly before his death in 1936) can be encompassed on the normally genteel British stage.

□

The destructiveness of the Spanish code of honor is also at the heart of "Worlds Apart," a play by the exiled Cuban writer José Triana, who now lives in Paris. It is being given its British premiere by the Royal Shakespeare Company at its Stratford-upon-Avon studio theater, the Other Place.

Triana's play, set in Cuba between 1894 and 1914, might be described as a sugar opera in that it is a long, sprawling family saga. But it also gives a fascinating picture of the way the Andalusian belief in sexual purity was imported by Spanish plantation owners to Cuba. At the same time it suggests that Cuba, in the transition from Spanish to American colonial power, remained "a beehive of parasites" swarming with corruption.

The play takes the form of a recollected dream in the mind of Victoria, the ruined daughter of a Spanish-colonial mother who wanted her girls to be like "precious crystal." Janet McTeer gives an extraordinary performance as Victoria, moving from shy flirtatiousness to paralyzing frigidity in marriage to wild abandonment when she takes a lover: All the time, McTeer, a great actress in the making, suggests the frightened child inside the woman.

Darlene Johnson as her repressive mother and David Haig as her frustrated husband give strong support. But the success of the evening depends heavily on Nick Hamm's production, which swathes a loose-knit play in exotic Cuban atmosphere and which bangs home Triana's point: that the Spanish colonists' moral code in no way corresponded to their real desires.

□

In the main house at Stratford, Jeremy Irons plays the title role in a decent, traditional, highly picturesque production of "Richard II" directed by Barry Kyle. The setting, designed by William Dudley, is a beautiful, walled medieval garden straight out of a Book of Hours. Inside this, Irons gives a persuasive reading of Richard moving from petulant tyrant in the first half to Christian martyr in the second.

He lacks the vocal range for Richard's great arias of decline, but he is very good in the Westminster deposition scene, where he has the inner steel of the defeated, and he goes to a memorable death when he is hauled in on a long chain like an angry dog. There is fire in this Irons, and Kyle's production boosts a patchy Shakespeare season in Stratford.

□

At the National Theatre in London, David Hare has come up with a rather static double bill about the difficulty of achieving personal freedom. "The Bay at Nice" is set in Leningrad in 1956 and stars Irene Worth as a mother dealing with her daughter's marital problems and authenticating a Matisse painting. "Wrecked Eggs" — the second, far better play, shows a Yuppie couple in New York splitting up under the watchful eye of a lonely press agent (well-played by Zoë Wanamaker). Hare writes with irony and wit but leaves one hungry for dramatic action.

Michael Billington is drama critic for the Guardian newspaper in London.

Frank Herrmann

Colin Stinton in David Hare's "Wrecked Eggs."

Chinese Publishing Turns the Page

By Kate Singleton

BEIJING — In his inaugural speech at the first international book fair in Beijing earlier this month, the dapper, youthful vice premier and minister of education, Li Peng, spoke of China's need to learn from other countries. To judge by the hundreds of Western and Japanese publishers with stands in the 7,800 square meters — almost two acres — of an exhibition hall milling with potential Chinese readers, there are plenty of people ready to impart the required lessons.

China is widely looked upon as an interesting area for development by these publishers. Although the country plans to spend $52 million this year on importing foreign publications, its limited foreign currency resources and the slow, unwieldy ordering and payment processes mean that no foreign publisher is likely to make a quick fortune.

Until recently the China National Publishing Import and Export Corp. in Beijing had the monopoly on Chinese book imports, and supplied about 10,000 institutional customers. A university interested in purchasing a foreign book could count on a delay of up to a year, and there were just as many time consuming steps in payment.

In keeping with decentralization, efforts are being made to improve importing. A Shanghai branch of CNPIEC has been opened and the Beijing Publications Importing and Exporting Corp., a consortium of five foreign language bookstores, established.

Two other corporations previously involved only in rights negotiations and exports are now also dealing in book imports. Furthermore the Beijing University library has established a department that receives funds to procure books for 110 university libraries.

The wind of change blows mainly from Shanghai, where the local book traders last year set up their own import-export division for books, tapes and software. This Shanghai organization has been fairly vocal in its criticism of previous central buying practices, and is bent on competing with import houses by offering better service.

The first Western publisher to set up deals with China was Springer Verlag of West Germany, invited to China by the State Council for Education in 1974. Springer, which has a large Hong Kong office, publishes about 1,200 new titles in science and technology and 200 scientific journals a year, half of them in English.

The possibility of co-producing books with Chinese publishers seems promising: It allows for a sort of payment in kind that overcomes some of the problems of dealing with foreign currency, and China itself is now producing books that could be of interest to Western readers. As Lo Chaotien, the deputy secretary-general of the Shanghai Publishers Association (he is also deputy chief editor of the Shanghai translation publishing house) put it:

"The most important thing to import is knowledge, and we are certainly backward in many fields of science. However the prices of foreign books are quite high for us, so co-productions are a particularly attractive alternative. They also open up markets for us abroad. The one big obstacle is translators. They have to be excellent, and they're not easy to find.

"Because China's got its good areas. Our children's books are good. And we've got a whole new wave of fiction writing that no one abroad knows anything about, novels that talk about the frustrations and realities of China today. The country also has something to offer in a few areas of science; seismology and irrigation, for instance."

Meanwhile Pergamon Press, which prints the English-language China Daily newspaper in Britain, recently set up a joint venture with the China Printing Corp. of China, which can produce journals and books in Chinese and English at prices cheaper than those of Hong Kong. Bantam will be announcing a new natural history monograph by a Chinese author and is trying to coordinate book presentation and film screening. When "Sophie's Choice" was shown in China recently, the paperback book by William Styron sold several thousand copies, despite a high price.

Man man lai, say the Chinese — slowly slowly things come.

Kate Singleton is a Milan-based journalist who writes frequently on cultural affairs.

Christian Rose

Mike Hennessey, editorial director of Music & Media.

Pan-Europe Pop

By Mike Zwerin
International Herald Tribune

LONDON — There is a trend toward "pan-European" international pop music, which until recently was almost 100-percent Anglo-American: Except for the British, who traveled westward, hits by Europeans rarely crossed frontiers.

Music & Media, a year-old European business magazine published in Amsterdam, aims toward "meeting the needs of the changing European broadcasting and home-entertainment landscape," according to its editorial director, Mike Hennessey. "Thirty percent of the international top 100 hits now originate in Europe," he said.

Falco (Austria), Chris De Burgh (Ireland), Jennifer Rush (West Germany), A-Ha! (Norway), Mai Tai (the Netherlands), Simply Red (Britain) and of course Sweden's ABBA have been some of the European pop stars and groups whose appeal has not been limited to their own countries.

Analyzing the fast-moving present and predicting the uncertain future of the worldwide music industry is hazardous. Europe is particularly bewildering. Hennessey, who is also editorial director of Billboard magazine's London-based European operations, feels confident about only two predictions: "World appetite for music will grow rather than diminish, and the compact disc will be the predominant sound carrier before the end of the century."

How will all this music be delivered to the consumer? From a master tape it is possible to produce singles, maxi-singles, standard stereo LPs, cassettes, digital cassettes, compact discs and reel-to-reel tapes. The recording can be played in the home, office, automobile, on the streets over earphones, by radio or, with added images, by regular TV and satellite, cable or video cassettes. Videos may use NTSC, PAL or SECAM systems, with Betamax, VHS or Super-8 format.

French, British, West German and Scandinavian broadcasters, public and private, are negotiating separate major international satellite and/or cable transmission systems. What Hennessey terms the "multinational footprints" of increased satellite broadcasting has provoked "a great deal of conjecture about standardized musical culture and worry over a massive erosion of national repertoire. I call it 'wall-to-wall Dallas.'"

On the other hand, record companies and broadcasting systems are paying more attention to strictly national material, not so much from chauvinism but because there remains a profitable market for it. Much of the recent increase of the European market share of international product is due to the mushrooming private and local FM stations, notably in France, Italy and West Germany.

Hennessey traces the pan-European trend back to 9 A.M. on March 9, 1979, when CBS organized simultaneous releases throughout Europe of the Supertramp "Breakfast in America" album. "The coordinated marketing campaign was an enormous success, with European sales of almost four million albums," he recalled. "It set a pattern for subsequent initiatives."

During the 1980s, record companies have been centralizing and increasing European manufacturing, administration, royalty accounting, and promotion and tour coordination — treating Europe as united states. But Marcus Bicknell, commercial director of the Société Européenne des Satellites in Luxembourg and former president of A&M Records' European operations, said: "The growing tendency to see Europe as one market is only viable up to a point, because at the same time producers are paying more attention to local programming. European markets move at different speeds and an artist's previous single may still be selling in one country and not the country next door."

Hennessey noted: "The response differential to international product in Europe can be a headache for record companies. Overproduction of a particular recording in a country where costs and demand are low leads to exports to a high-cost, high-demand country. Since free flow of product is a fundamental principle of the EEC, producers can only avoid such income-reducing trans-shipments by harmonizing prices and having enough product ready to meet demand no matter how large or when and where it arises.

"No wonder there is considerable consumer confusion over the complex interrelationship between broadcasting and sound/video carrier systems. The confusion is particularly apparent in Europe, where broadcasting is experiencing a period of turbulent revolution."

He concluded, "These are exciting times, but so many questions remain unanswered."

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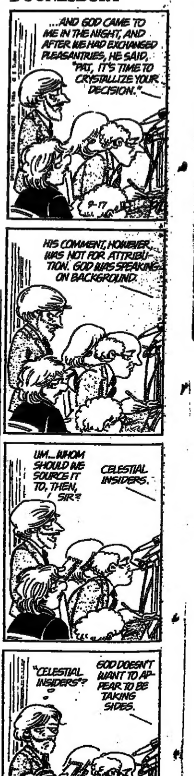


International Herald Tribune Special News Report

Wednesday, September 17, 1986

Japan Inc.'s New Headache

IN THE NEWS

Jan. 15: Talks End With Moscow on Kurils

Three days of talks between the Soviet foreign minister, Eduard A. Shevardnadze, and the Japanese foreign minister, Shintaro Abe, end without agreement over the Soviet occupation of the Kuril Islands, northeast of Hokkaido. Since the islands were seized in August 1945, the Soviet Union and Japan have not signed a peace treaty to formally end World War II.

April 6: Tokyo to End All Commercial Whaling

Yielding to U.S. pressure, Japan agrees to end all commercial whaling in 1988. The U.S. government last threatened to cut Japan's offshore fishing quotas in half if Japan did not withdraw its objections to the worldwide moratorium on whale hunting in 1988.

April 29: Emperor Hirohito Marks 85th Birthday

Lavish ceremonies mark the 85th birthday of Emperor Hirohito and the official celebration of his 60th year on the Chrysanthemum throne. Assuming his reign on Dec. 25, 1926, Hirohito is Japan's longest reigning emperor in recorded history.

May 4: Summit in Tokyo

Prime Minister Yasuhiro Nakasone hosts a summit meeting of the leading industrialized nations. Despite elaborate security measures, radicals fired five handmade rockets toward a government guest house where opening ceremonies were taking place.

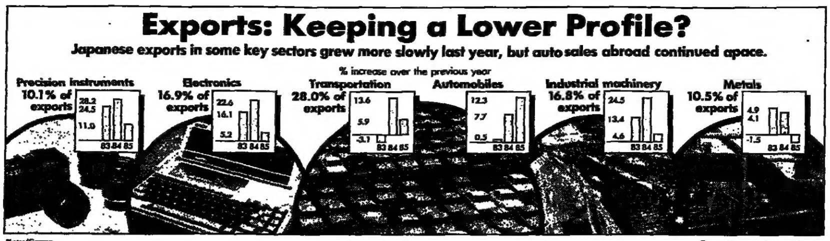
July 6: Liberal Democrats Win Landslide Victory

Prime Minister Yasuhiro Nakasone's Liberal Democratic Party wins a landslide victory in elections to the Diet, winning a record 300 seats in the 512-member chamber. The Japan Socialist Party, the largest opposition party, lost 25 lower house seats.

Sept. 16: Stocks Plummet

Prices plunge a record 637.33 points on the Tokyo stock exchange after prices on Wall Street fall 141 points. The decline followed a drop of 460.73 points on the previous day of trading in Tokyo.

The Trade Troubles



Photos/Gamma

Source: Japanese Ministry of Finance

Export Economy Takes Downward Turn

By Gregory Clark

TOKYO — It's official. The Japanese economy was headed for a downturn. For a long time the government was unwilling to admit any problems, and only recently has begun to speak openly about the possibility of a recession. But no export-oriented economy like Japan's can see its currency appreciate by around 40 percent in less than a year without suffering badly.

The problem is how badly. Optimists in Japan point to the gains from cheaper imports due to currency appreciation, especially lower energy costs and raw materials prices. These benefits when passed on to consumers are supposed to spark a consumption boom that will cancel out the harm done to the export industries.

The optimists also say that, since only about 15 percent of Japan's GDP goes to exports, it is less export vulnerable than, for example, most West European economies. Domestic demand-oriented industries should be able fairly easily to pick up any slack in the economy, particularly if the government is willing to provide the right push in the right directions.

Their arguments could well come unstuck, though, for several reasons:

First, Japanese importers and firms using imported fuel or materials have been notoriously reluctant to pass on import savings. To give but one example, each jump in oil prices in the past saw an immediate jump here in taxi fares. But with oil now almost a third the price that it used to be, there has not yet been even a mention of a possible cut in taxi fares.

Nor are the higher profits in import-related firms necessarily recycled back into the economy. A large share will probably join the queue of Japanese capital seeking better investment yields abroad.

Second, government talk about more spending to stimulate domestic demand needs to be taken with a grain of salt. Prime Minister Yasuhiro Nakasone still sees himself as bound to his pledge to cut or at least restrain government spending to reduce the burden of official debt. Instead he is offering to encourage more private investment in housing and infrastructure. But abnormally high land prices have cut profits from any housing and infrastructure spending that the private sector might want to undertake.

Third, other domestic industries also face problems. It is true that the economy is now seeing a rapid expansion of the service sector — leisure, information, finance, etc. Frequent surveys show a clear gap between the vitality of manufacturing and service industries over a wide range of indexes.

But can Japan shake off its dependence on manufacturing, particularly exports, overnight? Exports may be a relatively small share of the total economy, but they are also a dynamically important share. Most of them have strong backward linkages into other areas of the economy.

In the past exports repeatedly worked to lead Japan out of recessions and into high growth phases. Today they could easily work in the reverse direction as they are cut back in output and profits. On top of this is another factor grossly overlooked — the severe cutbacks that will soon appear in import-competing industries as imports rise both naturally and as the government works to live up to its slogan to cut the trade surplus through higher imports rather than lower exports.

Overnight Japan is trying to deny the legacy of almost a century of protectionist policies. The loss of the benefits of this protectionism will be traumatic. The effect on the economy will be rather like trying to throw a speeding express train into reverse.

Contrary to the claims by the government here and quite a few academic economists abroad, Japan did not get to where it is today through free trade. It relied heavily on protection, and *other* people's free trade. The Japanese have long realized, even if only instinctively, that an economy is an organic rather than a mechanistic object. Activity in any one area stimulates activity elsewhere and helps to reduce costs elsewhere. To the extent that protectionism at home and aggressive exporting abroad promotes such activity, Japan gains.

True, excessive protection over a wide area can also raise rather than lower costs for the whole economy. But in general the gains far exceed the losses, especially in an economy as dynamic as that of Japan.

Seen from Japan, the free trade theorists in the West are much too static and mechanistic. They have failed to realize the scope for what can be called external economies — the way in which even a protected sector can reduce costs in other sectors by increasing their demand and by adding to the industrial base of the economy.

Take bicycles, for example. By preserving its bicycle sector, as it has done ruthlessly, Japan not only maintains employment in this area, but it also provides demand for steel, rubber tires, parts, etc. This in turn allows the producers of these

Continued on page 8

GREGORY CLARK is a professor of international business at Sophia University in Tokyo.

IN THIS REPORT

Thierry/Sipa-Press

One firm's emissary to France.

Regional Economic Relations

Stronger Yen Is Mixed Blessing for Southeast Asia

By Michael Richardson

SINGAPORE — A sharp rise in the value of the Japanese yen and depressed prices for raw material exports have prompted Southeast Asian countries to reassess their economic relations with Japan.

Since September 1985, the yen has appreciated by more than 30 percent against nearly all currencies of member states of ASEAN, the Association of South-East Asian Nations.

A study published in May by three economists of the Manila-based Asian Development Bank concluded that the impact of the yen appreciation was a mixed blessing for the region.

The study said the immediate effect would be to increase the bill for imports from Japan, which vies with the United States as the leading source of trade, investment and aid for members of ASEAN, which groups Brunei, Indonesia, Malaysia, the Philippines, Singapore and Thailand.

The study found that major beneficiaries of the rise in the yen's value would be countries like Singapore which have developed a high-technology manufacturing sector geared for the export market.

It said that to reduce costs and remain competitive, Japanese manufacturers would have an incentive to relocate their operations abroad.

At a meeting in Manila in late June with Foreign Minister Shintaro Abe of Japan, Ahmad Rithauddeen, the Malaysian foreign minister, speaking on behalf of the six ASEAN members, said the yen's rise had turned Japanese loans into "a source of hardship because the high cost of debt servicing is eating into the allocations for our development plans."

Asian Development Bank officials said that while U.S. dollar-denominated borrowings formed the largest chunk of foreign debts incurred by Southeast Asian members of the bank, about 25 percent of public long-term debt in Indonesia and Thailand, and more that 15 percent of the public long-term debt in Malaysia, was in yen.

AP

Shintaro Abe

Mr. Rithauddeen said Japan, which in the past 15 years has purchased substantial amounts of its requirements for imported oil, natural gas, tin, rubber and other raw materials from Southeast Asia, was also "buying ASEAN primary commodities at reduced prices, while ASEAN buys Japanese manufactured goods at higher prices."

The ASEAN foreign ministers had earlier issued a joint communiqué that singled out Japan's economic policies toward the region for particularly harsh criticism.

They expressed "grave concern" over what they described as the declining trend of Japanese investments in ASEAN countries and complained that ASEAN's manufactured and semi-manufactured products "continue to experience poor access to the Japanese market."

Officials said ASEAN's patience with Japan was wearing thin. The association's 1984-1985 annual report questioned the sincerity of a well-publicized series of so-called market-opening measures announced by the Japanese government in the past few years.

After more than a decade of sustained rapid growth, demand for almost all of ASEAN's traditional commodity exports has fallen sharply, plunging the economies of the six member countries, with the exception of Thailand, into contraction or near-recession.

According to figures released in May by JETRO, Japan's External Trade Organization, the country's imports from ASEAN nations dropped by 8.3 percent to $20.2 billion in 1985, while exports to ASEAN fell by 20.3 percent to $11.3 billion.

While ASEAN continued to enjoy a big, though declining, surplus on its balance of trade with Japan, this was largely accounted for by exports of oil and gas from Indonesia, Malaysia and Brunei. The value of those energy exports will be much reduced this year. The Philippines, Singapore and Thailand had trade deficits with Japan in 1985.

ASEAN officials point out that, although the value of two-way trade with Japan trebled in 10 years, manufactured goods still account for less that 10 percent of the association's total annual exports to Japan.

Asia's economic superpower arouses feelings of ambivalence in Southeast Asia, where Japanese troops in World War II attempted to carve out what Tokyo euphemistically called a "co-prosperity sphere."

Feelings in political and business circles range from admiration at Japan's single-minded and disciplined accumulation of wealth and economic power, to envy, mistrust and fear.

Asked in an interview in July to describe Japan's standing in Southeast Asia, Lee Hsien Loong, Singapore's acting trade and industry minister, replied that it was "a major factor in our economic lives."

Mr. Lee said the transfer of Japanese technology that came with investments was limited.

"They will give you a few weeks knocking around their factories to see how they work. But that is the limit of what you can get in terms of Japanese technology transfer."

He added that Japanese investment decisions were made largely by the private sector, not the government. "Whether they come depends on whether we are attractive to Japanese companies," he said.

Singapore has put in place a package of measures to lower taxes and other business costs. Mr. Lee said that, compared with last year, the degree of Japanese investment interest and commitments in 1986 had increased tremendously.

Indonesia, Malaysia and the Philippines have also announced measures to liberalize foreign investment controls to lure Japanese capital and know-how.

However, a report in March by Keizai Doyukai, a Japanese business organization, suggested that substantial reform was required. It said fewer than half of the 550 Japanese companies surveyed were planning to expand investments in ASEAN.

Analysts said that, while the economic slowdown in Southeast Asia was a deterrent because it had reduced business profitability, specific complaints cited in the survey included red tape and unacceptably tough investment requirements and tax laws.

Both Singapore and Malaysia are concerned that protectionism in major industrial nations is changing the pattern of international investments to the disadvantage of ASEAN members and other Third World states.

Prime Minister Mahathir bin Mohamad of Malaysia said in an interview in May that one cause of this shift was the need for Japan to offset its huge trade surpluses with United States and Europe. He said he was eager to promote Japanese investment in Malaysia and business partnerships there that linked Japanese, U.S. and local investors so that each would benefit.

But despite the big rise in the value of the yen, he said, "We are not getting that kind of investment because the Japanese are afraid that if they export from Malaysia, the goods they produce may be subjected to protectionist policies in the United States and Europe."

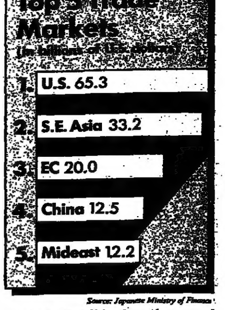
A report on the future of the Singapore economy prepared by a committee headed by Mr. Lee and published in February, observed: "To avoid problems of tariff and nontariff barriers, capital-exporting countries such as Japan are increasingly resorting to market investment.

"They are establishing factories in the countries where the goods will be sold, such as the United States and Europe, not in the countries where the goods can most economically be produced."

Figures released by Mr. Abe's delegation in Manila in June showed that total direct Japanese investment in ASEAN by the end of 1985 amounted to $13.6 billion, or 15.7 percent of Japanese investment abroad.

But the statistics confirmed ASEAN concern about a decline in Japanese investment in Southeast Asia relative to other parts of the world. They revealed that ASEAN's share of the value of Japan's worldwide direct investment had dropped from a peak of 31.7 percent in 1981 to 7.7 percent in 1985.

Mr. Abe told the ASEAN ministers he hoped that the recent appreciation of the yen would lead to expanded ASEAN exports to Japan. But, he said, if this were to happen, ASEAN "needs to reorient the traditional export structure, dependent on primary commodities, by diversifying the product range of exports."

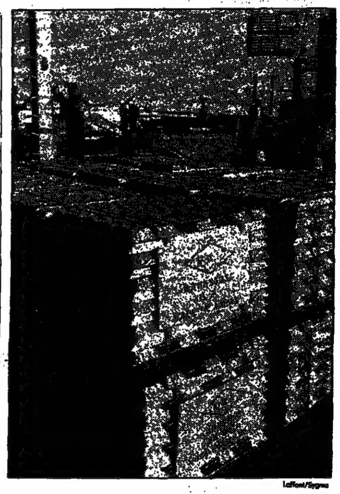


Source: Japanese Ministry of Finance

The minister pledged that Japan would help bring about this change, adding that he believed Japanese investment, technical assistance and technology transfers would play an increasingly important role in the structural adjustment needed to raise ASEAN economies "to a higher level."

Officials in Tokyo say that the Ministry of Trade and Industry is planning to set up a semi-governmental agency to promote Japanese private investment in Southeast Asia, a move it is hoped would hasten regional industrialization and penetration of the Japanese market by ASEAN manufactured and processed products.

MICHAEL RICHARDSON is the International Herald Tribune's correspondent in Asia.



Laffont/Sygma

Loading machine parts for export at Nagoya.

Export Economy Turns Downward

Continued from page 7

things to maintain employment, stimulate more demand in the economy and cut the costs of their supplies to the export-competitive car and motorbike sectors. In the process, costs in the bicycle industry are also reduced, perhaps not to the level of foreign competitors but enough not to impose too much of a burden on the economy. Japan gains in many ways.

In the West we could argue that, if the bicycle industry cannot compete, it should be driven out of business. The resources employed there will become available to the motorbike and car industries and make them more efficient. In theory that may be so. But as we are learning only too painfully, resources do not move so easily. And the loss of one sector can easily weaken the industrial base overall. Demand falters. The economy loses rather than gains.

The debate spills over into trade policy. The mechanistic argument says imports will speed the shift to a more competitive economy. The Japanese say, "No thank you." Competition among domestic producers is just as effective.

But they say "thank you" to the chance to export more abroad. More Japanese exports means more production in Japan. This means lower costs and allows Japanese industries to become even more competitive while the rest of the world stagnates.

When the employment effects, ripple effects on other industries and generally increased demand in Japan are all considered, $1 million of extra car exports brings much more than $1 million of extra activity to the Japanese economy.

The theorists can prove that free trade should lead to a balance, with each country specializing in the industries in which it is most efficient. The Japanese know that it is just the reverse. Free imports can lead to the loss of even efficient industries, while free exports can allow even inefficient industries to survive.

The rest of the world, Western Europe in particular, should long ago have taken a tougher line toward Japanese imports. Domestic producers can be made to be efficient by forcing them to compete with each other. In a large market such as the European Community's that should have been quite easy to arrange.

Instead the Japanese were given a free ride to economic dominance. The oil shocks, by helping to keep the yen cheap, further helped Japan.

The problem for Japan now, however, is that all these dynamic forces go into reverse. Japan stands to lose, not gain, $1 million worth of extra car exports. Its economy loses much more than $1 million. It loses employment, ripple-effect orders and increased demand across the board.

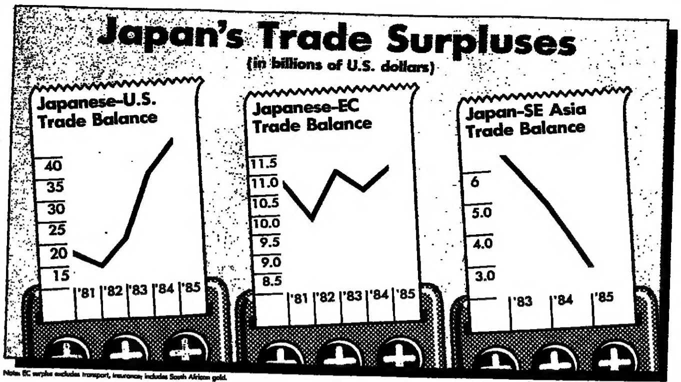
Worse in some ways is the loss from increased imports. If, as is now likely, a consumer buys a Taiwan bicycle for say $90 rather than a Japanese one for $100, the consumer may save $10. The optimists say the spending of the extra $10 will save the economy. But against this extra $10 is the loss of $100 from the purchasing power of the people who used to make bicycles, not to mention the ripple effects. The net loss to Japan could be more than $100.

So it is not just the export sector that is suffering. When the import-competing sectors are added to the export sectors, the share of GNP currently suffering from the higher yen is probably closer to 30 percent.

In this situation the obvious thing for Japan to do is to rapidly expand domestic demand. Tax cuts are one possible answer, but the government says it needs the money. Fortunately, Japan has a competent finance minister — Kiichi Miyazawa, who is an economist and former bureaucrat. But he has yet to break down entrenched conservative resistance to large increases in government spending on public works.

Things could get a lot worse in the Japanese economy before they get better.

Widening Trade Gap With U.S., Europe Is Leading to Confrontation



Note: EC surplus excludes transport, insurance; includes South African gold.

Source: Japanese Ministry of Finance

House Hints At Quotas

By Clyde H. Farnsworth

WASHINGTON — Despite the closeness of their political relationship, the United States and Japan are moving into their most serious phase of trade confrontation in the postwar era, according to congressional staff members, Reagan administration aides and economic experts.

Many analysts project that the trade deficit with Japan may reach $60 billion this year, up $10 billion from 1985, and $70 billion next year.

Japan directly accounts for one-third of the overall U.S. deficit, which is expected to hit $175 billion this year. But, indirectly, American negotiators say that it could be much more.

The reason is that Japan, despite its position as the second largest trading power, buys so little from developing countries.

As recently as 1984, the United States acquired 58 percent of manufactured exports from the Third World, while Western Europe took 27 percent. Japan accepted only 8 percent, according to figures from the council of the General Agreement on Tariffs and Trade.

Since 1980, Japan's imports have fallen by 7 percent, from $140 billion to $130 billion. During the same period, Japan's exports rose by 35 percent.

These results, or lack of results, come after extensive negotiations between Washington and Tokyo in the last half-dozen years, a dramatic 50-percent increase in the value of the yen in the last 18 months and a series of liberalization moves under Prime Minister Yasuhiro Nakasone.

Japanese tariffs are the among lowest in the world. Many unfair standards and other technical barriers have been reduced. Market-Oriented, Sector-Selective, or MOSS, talks have achieved export prospects in telecommunications, medical equipment, pharmaceuticals, electronics and forest products. Now a new sector has been added — auto parts.

Last April, an advisory group to Mr. Nakasone, with great fanfare on both sides of the Pacific, produced the Maekawa Report, containing medium- and long-term policy recommendations for structural changes in the Japanese economy.

Among other things, it called for expansion of housing investment and stimulation of private construction through tax reductions and shorter working hours.

But the perception in the U.S. Congress, reinforced by the latest trade statistics, is that all the actions so far add up to little more than talk and future promises.

"The Japanese have a kind of mindset against buying other countries' goods," said Senator John C. Danforth, Republican of Missouri, in an interview. He noted that the message from Mr. Nakasone to import more "just doesn't seem to get handed down from on high. Their bureaucracy is even more intractable than ours."

Commerce Secretary Malcolm Baldrige said: "My defense before Congress for the Japanese ever-growing surplus is wearing mighty thin."

Mr. Baldrige, Mr. Danforth and other trade experts in Washington warn that a critical point is being reached at which either the Japanese will buy more goods from the United States, or the United States will shut out Japanese imports.

"There was a brief window of opportunity to take meaningful action to open Japanese markets," said the Senate majority leader, Bob Dole, Republican of Kansas. "That window is about to be slammed shut."

A House trade bill passed last May would do precisely that, and Mr. Danforth's subcommittee expects to write legislation this month that will not be too dissimilar.

Both bills would take control of trade policy away from the executive branch and give it to Congress and the International Trade Commission, a quasi-judicial federal agency that makes trade policy recommendations.

The House bill would require an annual 10-percent reduction in bilateral trade deficits with Japan, as well as Taiwan and West Germany, through imposition, if necessary, of unilateral tariffs and quotas.

Any Senate bill would probably not be so draconian. Yet the impact on Japanese trade could still be severe.

Earlier this summer it seemed doubtful that any trade bill would actually reach the Senate floor. But election-year dynamics, combined with the shock of a report in late August that the nation's trade deficit with all countries had soared to $18 billion in July, now make it all but certain that there will be a Senate bill.

It is still an open question whether the two chambers would have time for a conference to marry the two bills and forward a joint version to President Ronald Reagan.

Mr. Reagan and his senior trade advisers have repeatedly warned that he will veto any bill that limits his flexibility. The House narrowly failed to override the president's veto of protectionist textile legislation last Aug. 6.

But if there is no protectionist legislation this year, the magnitude of the deficits practically assures that it will be the first order of business in the new Congress.

While the trade debate reaches feverish intensity in the United States, efforts to launch a new round of trade liberalization will take place later this month at a ministerial conference of the 92 GATT signatory countries at Punta del Esta, Uruguay.

The American delegation is going to the conference with one eye on Congress, hoping that promises of future market openings will turn aside those legislators who want to close the U.S. market.

Yet the U.S. protectionists' position is strengthened by the one-way street that Japan has made of liberalization in the past. It has obtained the benefits of greater exports without the costs of greater imports, both U.S. and European trade officials agree.

Nowhere is this seen more clearly than in Japan's restrictions against imports from its trading partners in the Pacific Basin.

Japan's restrictions against South Korean steel, Taiwanese shoes, Malaysian electronic goods and other such products mean that they are exported to the United States where barriers are fewer.

Japan's frictions with Asian trading partners have come into play in the dispute over bidding for the new $8-billion Kansai International Airport near Osaka, which involves construction of an artificial island in Osaka Bay.

An American negotiator reported being told by Japanese officials that their reluctance to accept bids from foreigners stemmed from concern that they would then have to cede some of the business to South Korea, which has some of the world's most efficient construction companies.

Under heavy pressure from Washington, Japan has now agreed to permit U.S. companies to bid on some phases of the massive project, the first of more than $60 billion of public works contemplated over the next decade.

While it may give some token business to American companies, Japan still refuses to open the bidding to South Korea or other countries.

If Japan is taking the heat for Third World import curbs, it is also hotly criticized by Washington for keeping clamps on economic

Continued on page 14

***CLYDE H. FARNSWORTH** is a New York Times correspondent based in Washington.*

Brussels Is Looking For 'Concrete Actions'

By Steven J. Dryden

BRUSSELS — The European Community, faced with a marked worsening in its trade deficit with Japan, is hauling out old weapons and looking for new ways of reversing the growth of the imbalance.

After sustaining a record $13.7-billion deficit with Japan in 1985, EC officials watched with dismay as the gap widened to $9.9 billion, an increase of 68 percent in dollar terms, in the first seven months of this year. Sectors such as passenger cars and metal-working machinery registered volume increases of more than 100 percent. The officials said that Japanese companies were diverting trade to Europe from the United States because the appreciation of the yen against the dollar was greater than against European currencies.

European exports to Japan during the same period also showed a substantial increase, but the community does not believe this signifies a turnabout in the Japanese system, which they say discourages foreign goods. In specific sectors, such as wine and other alcoholic beverages, for example, EC officials reported little progress in contacts over the summer aimed at reducing the heavy Japanese taxes on imported liquor.

The community said the results so far of Japan's market-opening programs had been disappointing.

"What is needed now are early concrete actions that would shift the burden of Japan's current trade surplus and equalize the benefits of the trading system before the situation becomes totally destabilized," said Willy de Clercq, the EC trade commissioner.

During a visit to Brussels in July, a team of high-ranking Japanese officials argued for further patience on the part of the EC, especially since demand in Japan was expected to grow later this year. Warning against protectionist moves by the EC that could set off trade wars elsewhere, Michihiko Ikeda, a deputy director at the Foreign Affairs Ministry, said that given the bad mood in the U.S. Congress, "it's time to stick to responsible trade policies."

In the weeks following Mr. Ikeda's visit, the EC Commission imposed higher duties on two Japanese import categories, roller bearings and photocopiers. The commission said the products were being dumped on the European market in violation of rules of the General Agreement on Tariffs and Trade, but Japanese businessmen saw a political motive behind the penalties and said they would contest them in the European Court of Justice.

In a sense, the anti-dumping duties, whether legally justified or not, have a look of desperation to them. In the photocopier case, Japanese companies hold 85 percent of the European market, while British-based Rank Xerox, part of the American company, holds 10 percent, leaving 5 percent in truly European hands. The commission said it wanted to support the "viability" of European companies, but the question that arises is whether there is any European photocopier sector left to protect.

The dumping duties followed a year that, apart from the dismal trade statistics, saw a number of setbacks or rebuffs for EC policymakers concerned with Japan.

Last November, three members of the commission made a special trip to Tokyo to emphasize the depth of the community's concern over the trade gap. The commissioners wanted a commitment from Japan to set a target for increased imports, but came back to Brussels with little more than a pledge to loosen restrictions on European wine imports — an issue that to date has yet to be resolved.

In March, the EC received a cold response from other GATT members when it suggested that the disproportionate benefits that some member states gain from GATT — a veiled, though unmistakable, reference to Japan — be included in the agenda for the new round of world trade talks. Even the United States, one of Japan's arch trade rivals, declined to support the move.

In July, Japan concluded an agreement with the United States on semiconductor trade that, in its exclusion of the EC, seemed to underline the second-tier status to which the community sees itself relegated by Japan. Mr. de Clercq, noting that most of the EC's semiconductors are imported, said that the community "cannot accept that Japan and the United States determine prices to be be paid by European users on the basis of a bilateral understanding."

In a sign of its growing frustration with Japan, the commission announced in July that, if the issue of Japanese taxes on liquors imports were not resolved by October, it was ready to go to GATT to ask for the establishment of a special panel to examine its complaints.

As the community has searched for ways to halt the surge of Japanese exports, Japanese companies have been gradually shifting production to Europe, in some instances to escape EC quotas and tariffs. There are now more than 200 Japanese companies manufacturing in Europe, ranging from Nissan (cars) to Brother (typewriters) to Komatsu (earth-moving equipment).

***STEVEN J. DRYDEN**, a journalist based in Brussels, writes a biweekly column on European Community affairs for the International Herald Tribune.*

Shift From Exports Boosts Services Sector

By Susan Moffat

TOKYO — The yen's precipitous rise, while it continues to hit Japan's manufacturing sector hard, is at the same time giving a major boost to the growing services sector. "The effect of the yen's appreciation are very diverse," said Kazuho Toyoda, an economist at the Nomura Research Institute. "But right now, it looks like the deflationary impact will outweigh gains made."

But though the short run outlook for the Japanese economy is slower growth, there is a silver lining in the long run.

Many economists believe that Japan may be beginning to head in the direction described earlier this year by the Maekawa advisory council — away from export dependence and toward a more domestically oriented economy.

With the yen hovering around 150 to the dollar, or about 55 percent higher than it was in September 1985 when five industrial nations moved to push its value up, Japan's export volume is shrinking.

This will not fix Japan's trade surplus, because low prices of oil, its biggest import item, and the higher dollar value of its exports will probably push its surplus to more than $80 billion, up from $55 billion in 1985. But the basic shift of the economy toward a more domestic orientation has begun to show up in economic figures.

First came the bad news: bankruptcies of small exporters, plummeting corporate profits and a small rise in unemployment in the first quarter of 1986, when the economy showed its worst performance in 11 years.

Manufacturing profits for 1986 are expected to drop 22 percent from 1985 levels, according to a Bank of Japan survey, and the third quarter of calendar 1986 is expected to be the gloomiest period of high-yen damage yet.

Private research institutes and, more recently, the Japanese government have revised GNP growth predictions for 1986 downward to about 2 percent, following 4.2-percent growth in 1985.

And while the government is officially sticking to its 4-percent growth estimate, the Ministry of International Trade and Industry has predicted 2.5-percent growth for fiscal 1986.

But already the good news is starting to emerge — modestly growing domestic demand, lower consumer prices on imported goods, after a delay during which the distribution system raked off windfall profits, high growth in service industries and profits boosted by lower costs for fuel and raw materials.

Corporate profits are expected by some experts to bounce back strongly in the first half of the calendar year 1987.

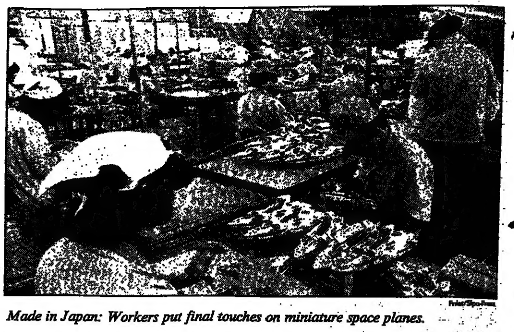
"The rise of the yen is a good thing for the Japanese economy in the end. We can see it is speeding an essential transformation," said Toyomitsu Tamao, director of the Nomura Research Institute's investment research department.

The discovery of the high yen's silver lining so far has come with less pain than some doomsayers predicted.

There were actually fewer bankruptcies in the first half of 1986 than in the same period in 1985 before the yen's rise.

Japan's large corporations, especially its most successful exporters, cushioned by exceptionally large profits in 1984 and the first half of 1985, have been able to meet the challenge through price increases, rationalization — without laying off full-time employees — and investment in overseas production facilities.

SUSAN MOFFAT is a reporter for Kyodo News Service in Tokyo.



Made in Japan: Workers put final touches on miniature space planes.

Liberalization Paves Way For Bank Opportunities

By Paul Maidment

TOKYO — Eric Ramussen, a vice president of Chemical Bank, was speaking of his own bank when he talked recently of having to think of "banking as something other than lending money," but the phrase applies equally to all banks in Japan.

The fierce competition fostered by internationalization and liberalization is pushing Japan's banks into new areas of business at home and abroad. And the weight of Japan's surplus capital — the country is now the world's biggest creditor nation — is giving them, and their regulators, an extra shove.

Japan has its own version of America's Glass-Steagal Act, known as Article 65, to keep apart the banking and securities businesses, but, as in the United States, the distinction is blurring. The same is true of other areas of banking that have traditionally been kept separate in Japan. The authorities' decision earlier this year, for example, to let foreign banks engage in trust banking has made the traditional separation of trust and commercial banking virtually meaningless, although Japanese commercial banks are still barred from it.

The deregulation of interest rates is increasing pressure for commercial banks to be able to raise long-term funds, presently the prerogative of the long-term credit banks. Eventually, most senior bankers say, Japan will return to universal banking, as it practiced before the U.S. occupation administration separated commercial and investment banking after World War II.

Japanese commercial banks are already laying the groundwork, particularly overseas, where they are not restricted from investment banking as they are at home. They are doing all sorts of *zaiteku* (capital management) business for their domestic clients through foreign subsidiaries, which could not be done directly between the two parent groups in Japan. Sanwa Bank has sought mergers and acquisitions in the United States, mostly for Japanese clients.

But the most dramatic example so far is the linkup in August between Sumitomo Bank and Goldman Sachs, one of Wall Street's five "special bracket" investment banks. The immediate benefits from the deal, for both sides, are likely to come from access to the placing power each has in its home market and through joint operations in London, where Japanese banks are already powerful players in the Euromarkets.

But bank analysts speculate that Sumitomo, which as well as being barred from dealing in securities in Tokyo is not allowed to own more than 5 percent of a Japanese stockbroking house, may use the partnership to test how flexible Japan's regulators are prepared to be with Article 65 in keeping Japanese banks out of the domestic securities business.

Goldman Sachs was among the first foreign firms to be granted a seat on the Tokyo Stock Exchange, which it took up in June. And foreign banks have effectively been allowed to deal in securities in Tokyo by the granting of licenses to subsidiaries in which the parent bank has no more than a 50-percent stake. This route was pioneered by Deutsche Bank.

It is expected in Tokyo that the Sumitomo-Goldman link will be the precursor of other moves by the big Japanese banks to go deeper into international banking. Sanwa Bank, Mitsubishi Bank and Industrial Bank of Japan have been seeking prey among the investment banks of Wall Street for some time. Japanese banks have already been steady buyers of American commercial banks: Fuji Bank of Walter Heller; Mitsubishi Bank of Bank of California; Industrial Bank of Japan of J. Henry Shroder; and Sanwa bank of Lloyds Bank of California.

Japan's commercial banks, which have long sought size before profitability, have the financial muscle to buy big abroad. They now dominate the world's bank rankings and account for more than a quarter of international banking assets. The share of Japan's 12 commercial and three long-term credit banks' total long-term assets (loans plus marketable securities) accounted for by their foreign branches had risen to 17 percent in 1985 from 5 percent in 1975.

It is so common to think of New York, London and Tokyo as the three centers of the world's round-the-clock financial market, that it is easy to forget that Tokyo is still not an integrated market. Financial deregulation may have had its origins in the emergence of a secondary market for government bonds a decade ago, but concerted attempts to free up financial markets only began tentatively in 1984.

True, this development gathered pace last year, but there is still much left to be done to open up the domestic market. Bureaucrats still set many interest rates and the competitive rules of the financial game, deciding who can do what sort of business, regulating the proposed offshore banking market, due to start later this year, and establishing taxation procedures on dealing in short-term government bonds.

Of the two themes that run through this deregulation, freeing up domestic interest rates and a gradual increase in openness to foreigners, it is the first that has most affected the banking industry through the competition it has brought. Certificates of deposits, money-market certificates and time deposits are being gradually deregulated, starting with large time deposits. Ceilings for the regulated interest rates for these deposits were lowered from 1 billion yen ($6.1 million) to 500 million yen in April. The aim is to have them down to 100 million yen by April 1987. At the end of July, the outstanding balance of large time deposits was 12.2 trillion yen.

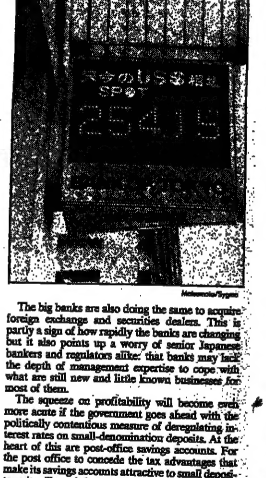
Commercial banks and smaller financial institutions such as mutual banks and credit associations have been allowed to sell money-market certificates since last year, thus giving them a crack at attracting bank funds that nonbank money-market-related instruments had attracted from deposits.

Such certificates, along with certificates of deposits, have proved a popular source of new funds for the banks. But they have meant higher funding costs just as lending rates have been falling and demand for loans by the big companies has been slackish or has been met from elsewhere such as the nascent Euroyen market. The average interest rate on bank loans in 1983 was 6.7 percent. It had fallen to 6.3 percent by 1985 and will have dropped further this year.

The broader sweep of financial liberalization and a booming stock market have meant new sources of competition for banks for the surplus cash of the big companies and for the high levels of funds Japanese put by for their old age and to educate their children. In the first half of this year, bank deposits actually fell by 180 billion yen.

The result has been an inevitable squeeze on the profitability of the banks, which had long luxuriated in cheap access to funds from deposit accounts. So, as well as seeking new sources of income, banks are pruning their overheads. The 12 big commercial banks have cut their clerical staff by about 10 percent over the past three years, about 15,000 people, replacing two-thirds of them, but using cheaper temporary workers from employment agencies.

The banks are also pushing fast into electronic banking. Computerized back-offices and cash-management systems are seen by banks as being areas in which they need to have a competitive edge. To get the expertise they need, the banks are breaking with their tradition of hiring only new graduates and are starting to hire computer specialists in mid-career.



The big banks are also doing the same to acquire foreign exchange and securities dealers. This is partly a sign of how rapidly the banks are changing but it also points up a worry of senior Japanese bankers and regulators alike: that banks may lack the depth of management expertise to cope with what are still new and little known businesses for most of them.

The squeeze on profitability will become even more acute if the government goes ahead with the politically contentious measure of deregulating interest rates on small-denomination deposits. At the heart of this are post-office savings accounts. For the post office to concede the tax advantages that make its savings accounts attractive to small depositors, it will need the promise of being able to offer new instruments such as its own money-market certificates.

The search for new business has taken the banks increasingly into areas the securities houses once regarded as their own. The fiercest competition is in the secondary bond market.

Public bond dealing in the secondary market was first opened, on a restricted basis, to commercial banks and the agricultural cooperative bank in 1984. (Three foreign banks were allowed to participate later that year.) The restrictions, which limited the banks to dealing only in bonds with less than two years to run to maturity, were lifted last year, at the same time as mutual, regional and foreign banks were allowed to deal.

Along with bond dealing, the banks have also been allowed entry into the broker business, which specializes in inter-trader public and corporate bond dealing. They are permitted to be brokers in the new local futures market, to issue foreign currency convertible bonds abroad (Mitsubishi and Sumitomo banks were the first to do so) and to set up investment advisory companies, where Sanwa Bank led the way.

For foreign banks, liberalization has meant that areas of the Tokyo banking market in which they were once strong have been increasingly invaded by domestic banks. Advantages such as being able to convert bigger sums of foreign currency into yen than domestic banks have been eliminated.

Also, the cost of raising funds is becoming relatively more expensive for foreign banks than local ones. Meanwhile, foreign banks are being squeezed out of the loan business by the big Japanese commercial banks just as much as smaller Japanese banks are. Lending by Japanese branches of foreign banks fell by 17.5 percent to 5.5 trillion yen in the year to March.

Thanks to big gains on foreign exchange dealings (18 billion yen, against 9 billion yen the previous year) and bond trading (5 billion yen, against 2 billion yen), the Tokyo branches of foreign banks increased their aggregate net profit in the year to March for the first time in five years, according to a regular survey conducted by Price Waterhouse, an accountancy firm. A common refrain is that for all the difficulties of winning business against local banks, it is a market none of them can afford not to be in.

PAUL MAIDMENT is The Economist's Tokyo correspondent.

Sorting Out 'Le Défi Japonais'; Myth and the Economic Miracle

By Dennis J. Encarnation

CAMBRIDGE, Massachusetts — The multinational spread of Japanese business, like the Japanese "economic miracle" itself, has produced several myths, if not misconceptions. As an outgrowth of the trading success of "Japan, Inc.," this second front of economic rivalry evokes Jean-Jacques Servan-Schreiber's image of the earlier American challenge to European business. But *"le défi japonais"* is portrayed as an even more formidable challenge by many observers, given Japan's industrial prowess.

By 1985, Japan's current-account balance enjoyed its fifth straight year of surplus, reaching an unprecedented $35 billion that year alone. This infusion of foreign exchange, supplemented by a level of domestic savings that exceeded the capital demanded by local investors, allowed Japan to become a large capital exporter.

Japanese overseas investments subsequently took many forms: bonds, loans, stock portfolios, as well as direct investments. While bonds now account for the largest outflow of funds, direct investments attract the greatest attention, since they mix equity ownership with managerial control, and they have been growing very rapidly.

The rapid growth of Japanese ownership and control over enterprises abroad has given rise to at least five, interrelated myths (part truth, part exaggeration).

To some commentators, Japanese multinationals behave differently than their counterparts based in Europe and America, even when they all confront similar circumstances. But this first myth is often contradicted by a second impression: that Japanese multinationals invest abroad solely to circumvent rising protectionism.

Japan's new multinationals are simply employing earlier export profits to acquire weakened competitors in overseas markets — this being the third myth — or to form joint ventures and other coalitions with competitors who remain politically, if not economically, powerful.

This results in the fourth myth: that manufacturing in America, Europe and several developing countries will soon be owned and controlled by Japanese investors who will, so the argument goes, retain higher value-added operations back home. The only recourse for these host countries is to respond politically, by restricting trade and investment, since their enterprises are too weak to counterattack.

This conclusion is based on a fifth and final myth: that the flow of foreign direct investment is unidirectional — from Japan to Europe, North America and the newly industrializing countries, but not into Japan with its protected market.

Like all myths, each of these can be supported by isolated facts. But, the full story of *"le défi japonais"* is far more complex.

The "multinationalization" of Japanese business — a popular phrase in Japan today — is actually a recent phenomenon given earlier government controls on the outflow of Japanese capital. As late as 1974, for example, Japanese direct investments in the United States were one-tenth the size of otherwise small American investments in Japan. But during the late 1970s, all of this changed, and by 1984 Japanese direct investments in the United States stood at nearly twice the value of U.S. investments in Japan.

In fact, during the 1980s, over two-fifths of all annual investment outflows from Japan were destined for America, which had replaced Southeast Asia as the principal target for new direct investments. Indonesia, with its abundant natural resources within easy reach of Japan, still retained the title as Japan's second largest overseas host, with one-tenth of all Japanese investment in 1984 compared to America's one-fourth.

> Like all myths, each can be supported by isolated facts. But, the full story is far more complex.

Latin America has always ranked a distant third, but during the 1980s this region experienced the most rapid growth of Japanese investment. By contrast, the growth of Japanese direct investments in Europe barely exceeded investments in Indonesia alone. Even Brazil, Japan's largest host in Latin America, boasted nearly as much direct Japanese investment as did Japan's three largest hosts in Europe — Britain, West Germany and the Netherlands — combined.

Europe's exclusion from *"le défi japonais"* reflects, in part, its paucity of exploitable natural resources. In fact, through 1984, at least one-third of all Japanese investments in Asia remained concentrated in extractive industries such as mining, forestry and fishing, a figure that had not changed appreciably for over a decade.

Even in the United States, where Japanese investments in extractive industries have remained relatively small, limited investments in the wholesale trade of metals, minerals and farm products channeled during 1983 about $18 billion of U.S. commodity exports, largely to Japan (up from $11 billion in 1980). Japan's insatiable appetite for food and raw materials remained an important incentive for Japanese investment overseas.

Still, manufacturing remained the largest repository for Japanese multinationals investing in Asia, as it had been until the 1980s in Latin America. In both regions, the principal threat to continued foreign trade was local competition, aided by high transportation costs, cheaper labor and, especially, the protective policies of host governments.

Historically, tariffs and other government restrictions on import competition in these countries have proven to be powerful determinants of those foreign investments designed to service a local, as opposed to an export, market. Japanese investment in Asia and Latin America proved no exception and followed a course charted decades earlier by American and European multinationals.

But long before the Japanese, American enterprises, facing a strong dollar and relatively high wages at home, also moved their labor-intensive operations to Southeast Asia, which became an export platform for supplies back to the United States.

By contrast, such overseas sourcing by Japanese enterprises was uncommon until, of course, they also faced a rapidly appreciating currency and diminishing advantages in relative wage rates. During 1986, Sharp and other Japanese electronics companies, for example, announced that they, too, would start moving their labor-intensive operations to Southeast Asia, thus following a course charted more than a decade earlier by their American counterparts.

While overseas sourcing became an important issue in Japanese manufacturing, its growth still paled in comparison to new Japanese investments abroad in the service sector. Indeed, by 1984, services accounted for over one-half of all direct Japanese investments overseas, up from two-fifths a decade earlier.

In Latin America, much of this new growth centered uniquely on the transportation sector, on land and sea. But in America and Europe, where the proportion of Japanese investments in services was even higher, enterprises entering wholesale trade and finance were the harbingers of future growth in trade and investment.

Consider, for example, the concentration of Japanese multinationals in U.S. wholesaling which accounted for well over one-half of all direct Japanese investments in the United States and grew during the 1980s at a rate faster than Japanese investments in U.S. manufacturing. The bulk of these new Japanese investments went into the wholesale trade of

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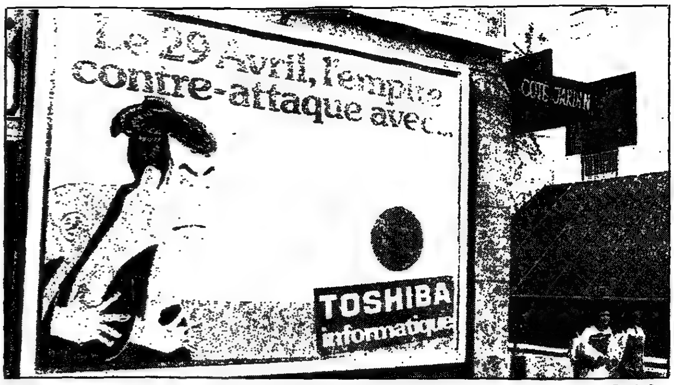
DENNIS J. ENCARNATION, an assistant professor at the Harvard Business School, specializes in the management of international business. His current research examines the motivations and consequences of cross-investment between America and Japan.



Billboard in Paris announcing the arrival of Toshiba computers in 1985. Thuon/Sipa-Press

France: New Favorite in Europe

By Alan Tillier

PARIS — "Hardly a day passes without news of another Japanese investment," said a French newspaper in August with only slight exaggeration.

While France lazed on the beaches, Aisin Seiki won permission for a research laboratory in the south of France, the successful conclusion for the Japanese of a long battle with the French authorities, while other Japanese companies, notably machine-tool and forklift truck makers, advanced toward new investments.

France has changed its attitude radically toward Japanese industrial presence on its soil with the remaining exception of the automobile sector where Japanese cars are limited to 3 percent of the market. Ten years ago, Sony was refused permission to build a TV tube plant at Rheims. Today, Sony has two plants in France — soon to be three — and chairman Akio Morita has been awarded the Légion d'Honneur.

The Japanese also have changed their view of France. A few years ago, in the face of French obstructionism, Japanese companies often went away muttering, "Why bang our heads against a wall?" in the words of one of their advisers.

The French either feared the Japanese — a suspicion particularly strong in the fashion industry — or wanted deals designed to win Japanese support for French industry abroad. "Horse trading," as the adviser described it.

Those days are past. France is the new Japanese favorite in Western Europe for investments designed to circumvent the high yen, Economic Community protectionist measures such as the punishment handed out to "dumping" by Japanese photocopier makers and sluggish domestic demand.

New Japanese plants, often accompanied by a symbolic cherry tree or garden, are to be seen in many parts of France. Even a boarding school for Japanese students, staffed by Japanese teachers, opened recently in eastern France.

The swing around the country this summer by a high-level business delegation organized by the Ministry of International Trade and Industry came after nearly 30 new production units had been set up in recent years. A dozen more are scheduled to open or are being negotiated, and the number of commercial offices continued to increase.

France still lags behind Britain and Spain in the number of workers employed by Japanese firms, but both those countries have major Japanese automobile plants. France is becoming popular for investment by large and smaller Japanese companies. The latter include Yuko (dry wall screws) which had a Shinto priest dedicate its new Lorraine plant.

In the past, France wanted Japanese technology while retaining control of the investment. Today, there is gleaming, high-tech machinery at the rebuilt, air-conditioned Ernault-Toyoda Automation machine tool plant at Cholet on the edge of the Loire châteaux country, but the control is Japanese.

At Cholet, the Japanese have saved an important part of the French machine tool industry following the failure of various French government machine tool "plans."

Two years ago, the French machine tool maker, Ernault-Somua, was losing a sum equivalent to annual sales and was about to go under after more than 120 years in business, including a postwar period when it licensed its technology to the nascent Japanese machine tool industry.

It increased collaboration with Toyoda Machine Works Ltd., affiliated company of Toyota automobiles, in the early 1980s, and in 1984, the French government, which had run out of possible national solutions, asked the Japanese to take over.

The Japanese agreed on condition that their reconstruction plan for the plant and work force was accepted. The Socialist government swallowed hard and the staff was cut drastically from 1,200 to the current 460.

The Japanese changed the whole balance of the work force, making 65 percent of the retained employees "direct" production staff, the exact opposite of the previous arrangement.

In a year and a half, the Japanese have launched a 140-million franc ($21.2 million) turnaround plan, most of it spent on machinery. They say the Cholet plant is now one of the most modern of its kind, with valuable machinery — one machine cost 7 million francs — housed in special, climatized rooms.

ALAN TILLIER is a Paris-based journalist who contributes regularly to The Sunday Times of London.

International Influence

Tokyo Emerges as Key Financial Center

By Ken Ferris

LONDON — Japan's emergence as a major industrial nation preceded its arrival as one of the world's key financial centers. But the dramatic strides taken by the domestic money and foreign exchange markets in the 1980s have established Tokyo as a serious competitor to London and New York. That success partly reflects the rise of the yen as one of the most widely traded currencies on international foreign exchange markets.

The yen's position as one of the most important investment currencies, along with the U.S. dollar, Deutsche mark, sterling and Swiss franc, is shown by average daily turnover figures given by central banks in the major financial centers.

Trading in dollar-yen now accounts for 14 percent of gross turnover in London, 23 percent in New York and 82 percent in Tokyo. The currency is the third most actively traded in Britain, the second in the United States and dominates trading in Japan. The fourth largest yen market is a distinction shared by Singapore and Hong Kong, while European markets, such as Frankfurt and Paris, are not so important.

The yen is now the second most important currency behind the U.S. dollar in international capital markets, according to a study by Mitsubishi Bank. Yen-denominated deals rose to 5.6 trillion yen in 1985 against 2.3 trillion yen in 1983, though they have since slipped back to an annual 4 trillion yen so far this year.

The increased use of the yen pushed its share of international capital market transactions to 12.6 percent in the first quarter of 1986. The Japanese currency also held a 14.1-percent share of the market in medium- and long-term international bank credits last year and made up 6.2 percent of official foreign exchange reserves. Meanwhile, yen settlements accounted for 35.9 percent of Japanese exports and 9.7 percent of its imports in 1985.

The advent of the yen as a powerful force on the world stage is paralleled by the staggering growth of business on the Tokyo foreign exchange market. In 1979, average daily turnover in Tokyo was a mere $2 billion, according to a study by the Group of 30, a New York-based research organization supported by financial institutions and multinational companies.

In a follow-up survey conducted by the Group of 30 from May to August 1985, Tokyo had increased its average daily trading volume to $8 billion. But that was matched by Singapore and Hong Kong. It also lagged far behind Zurich's $20 billion and Frankfurt's $17 billion, not to mention $49 billion in London and $35 billion in New York.

However, the latest central bank surveys, conducted by the Bank of England, the Federal Reserve Bank of New York and the Bank of Japan in March of this year, show that Tokyo is close to overtaking New York as the second largest foreign exchange market in the world. Estimates of average turnover were $48 billion a day in Tokyo, $50 billion in New York and $90 billion in London.

The surge in currency trading in Tokyo is partly the result of action by the monetary authorities to remove restrictions on direct dealing by Japanese banks and to relax regulations on deals carried out with foreign banks through brokers. But it also reflects increased dollar-yen business generated by the large trade flows between Japan and the United States.

The liberalization of domestic financial markets, the internationalization of the yen and the currency's 40-percent appreciation against the U.S. dollar since its low of 263 yen to the dollar in February 1985 have also contributed to increased turnover on the Tokyo market.

Since February 1985, Japanese banks have been allowed to engage in dollar-yen dealing on the Tokyo exchange market without having to go through a broker. This modification followed a move in July 1984 allowing Japanese banks to engage in direct dealing in all currencies with the exception of transactions between the yen and the U.S. dollar.

The authorities also used the first of those occasions to relax rules that restricted Japanese brokers' dollar-yen activity to the domestic market. Brokers have been able to conduct international transactions between the yen and other currencies since August 1984.

Those changes have fostered the growth of the Tokyo market as banks have taken advantage of the freedom to deal directly with other banks instead of channeling all their foreign exchange business through brokers.

The modifications are one of the principal reasons for increased liquidity on the Tokyo market, according to Akikaz Matsushima, manager and chief dealer of Daiwa Bank in London.

"Japanese banks can now get a better price for foreign exchange and this has led to an increase in turnover on the Tokyo market," he said. "Just a few years ago it was difficult to cover $50-$60 million in Tokyo and deals of $20-$30 million would be enough to move the market. But now, especially with the yen rising so sharply, everybody seems to have an interest in the currency."

The second main factor behind the increased dollar-yen turnover is the growth in trade volumes between Japan and the United States. In 1985, Japanese exports to the United States totaled $65.7 billion against imports of $22.1 billion. With the United States's seemingly insatiable demand for Japanese goods undaunted by the yen's sharp appreciation, and U.S. products increasingly price competitive in Japan, trade flows between the two countries are expected to continue their dramatic rise.

Indeed, Japanese exports to the United States rose 28.5 percent over the 12-month period ending in July hit a record $7.48 billion, while imports from the United States jumped 39 percent to $2.96 billion — the second largest monthly total on record. Commerce Secretary Malcolm Baldrige has already forecast that the U.S. trade deficit with Japan could increase to more than $60 billion in 1987 from an expected $55 billion to $60 billion this year.

The yen's relentless advance versus the U.S. dollar has accelerated the pace of exchange control liberalization and encouraged further steps to open up Japanese financial markets.

Rules covering investment in foreign securities by life and nonlife insurance companies and pension funds were relaxed on Aug. 6 when the percentage of total assets that such institutions can invest was raised from 25 percent to 30 percent. The 40-percent limit on the monthly increase in such investments is also to be removed. A further change allows credit associations to purchase foreign bonds worth up to 30 percent of their net assets, although the ceiling for the 1986-87 fiscal year remains at 15 percent.

The measures raise the limit on institutional investment in foreign securities to 4.1 trillion yen.

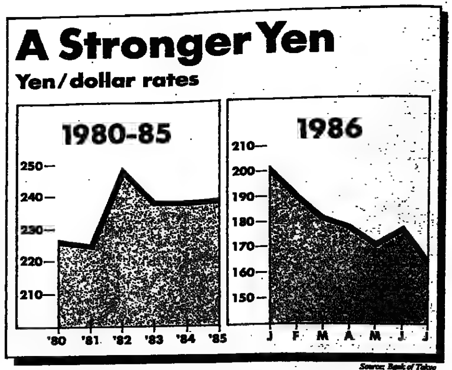
The Finance Ministry has also lifted a ban on investments by Japanese residents in foreign currency denominated money market funds and relaxed restrictions on overseas yen-denominated loans by life and nonlife insurance companies.

The latter involves the removal of a 50-percent ceiling on the participation by insurance companies in syndicated loans with 20 years or more to maturity. It also includes abolition of the regulation limiting the increase in the amount of lending to 10 percent of companies' half-yearly asset growth and raises the ceiling on overseas yen loans by individual companies to 5 billion yen from 2.5 billion yen.

The sharp swings in the yen-dollar exchange rate in the mid-1980s are themselves a reflection of the increased volume of yen business flowing across the exchanges. The yen depreciated 15 percent versus the U.S. dollar from its 1984 high of 222 yen to the dollar in April to a 1985 low of 263 yen to the dollar in February. It has since soared 40 percent against the dollar to a high of more than 156 yen to the dollar.

A Stronger Yen

Yen/dollar rates



Source: Bank of Tokyo

"In such circumstances people want to hedge or speculate on the yen," said another Bank of Japan spokesman. "That's part of the reason why yen trading has increased so rapidly. But we cannot forecast with certainty the future movement of the Japanese currency. If it's stable from now on maybe the yen will not attract so many people to the market."

However, some dealers are more certain about future yen trading patterns. "I think the increase in yen turnover is a trend that will continue," said Hiroshi Murata, a spot yen dealer with Sumitomo Bank. "Intra-day movements in the dollar-yen exchange rate are not as volatile as, say, dollar-mark. That means there is a good chance for dealers to take positions and make a profit. Professional dealers like such movement in a currency."

Sterling's role as the world's central trading currency before World War II was usurped after 1945 by the U.S. dollar which took over the mantle as the foundation of the world monetary system. The yen's dramatic advance as a major currency parallels the rise of those two currencies, based as it is on Japan's increasingly dominant position in world growth and trade patterns.

Nevertheless, most market participants are skeptical about the yen's ability to take such a key position in today's $200-billion-a-day global foreign exchange markets.

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'Le Défi Japonais'; A Sorting Out of Myth and Realities

Continued from page 11

automobiles and other durable goods, mostly to provide wholly Japanese-owned distribution channels in the United States for products exported from Japan.

Those Japanese-affiliated wholesalers distributed at least 70 percent of all Japanese exports to the United States. And since most of this trade was intracompany, between parent and affiliate, Japanese manufacturers exercised an unusual degree of control over the marketing of their U.S. exports. In other words, Japanese investments in the United States during the 1970s and 1980s were integral to Japan's trade strategy.

At the same time, these investments were also an integral element in Japan's response to U.S., and later European, protests over the trade imbalance. To recycle ever-growing export receipts, Japan's Ministry of Finance sought to stimulate the outflow of long-term loans and equity investments.

Foreign direct investment provided one mechanism for achieving this objective; in the name of "balancing the basic balance," the Ministry of Finance in 1975 removed the last remaining restrictions on the outflow of capital from Japan. But, somewhat paradoxically, new Japanese investments, most of which entered the U.S. wholesale sector, stimulated even more Japanese exports.

The pattern of Japanese trade and investment in America was soon mimicked on a much smaller scale in Europe, where tighter restrictions on import competition otherwise inhibited Japanese investments in wholesaling.

Still, by 1984, the proportion of all Japanese investments in the European wholesale and retail sectors (23 percent) finally approached those in finance and insurance (30 percent), historically the principal repository for Japanese investors eager to tap the Eurocurrency markets. In fact, during the 1980s, Japanese investments in European commerce continued to grow much faster than comparable investments in manufacturing (33 percent compounded annually, compared to 27 percent for manufacturing), again mimicking trends in America.

But during the 1980s, continued exports by Japanese manufacturers to their wholesalers were being threatened by U.S. and European trade policies. As a result, the composition of Japanese exports gradually changed as sub-assemblies and knocked-down kits, most notably in automobiles and electronics, began to be shipped to new Japanese assembly and manufacturing plants in America and Europe.

Joint ventures with local manufacturers became far more prevalent in Europe (as well as Asia and Latin America) than in the United States, where investments in manufacturing were typically owned exclusively by Japanese parents. Seldom were these joint ventures or wholly-owned subsidiaries formed through the acquisition of existing enterprises that may have been weakened by Japanese trade. Instead, new ventures have provided Japanese multinationals with a common form of entry to markets throughout the world.

While the book value of these new plants paled in contrast to the total value of Japanese investments in U.S. and, to a lesser extent, European wholesaling, Japanese investments in European and U.S. manufacturing nevertheless experienced rapid growth following the erection of trade barriers in Japan's principal export markets.

Japanese manufacturers, like their earlier U.S. and European counterparts, sidestepped these barriers by investing within the protected market. But unlike American or European multinationals operating abroad, several Japanese investors now were able to exploit their earlier beachhead in U.S. and European wholesaling by integrating backward into assembly and manufacturing.

While trade restrictions, both existing and proposed, represented important determinants of Japanese direct investments around the world — as they did for other foreign investors — these restrictions were not the only determinants.

Consider, for example, the multinationalization of NEC. When Sharp, Matsushita and other Japanese consumer electronics firms moved to Southeast Asia in the 1970s, NEC and other Japanese suppliers of integrated circuits moved with them. Then, when those same consumer electronics companies moved to the United States, just as orderly marketing agreements went into effect in 1977, their Japanese suppliers followed in 1978. That year the threat of new trade restrictions on commodity-like semiconductors combined with the exercise of "buyer power" to stimulate NEC's direct investment in America.

Other factors also entered into the investment equation. By 1978, NEC's rapidly growing export sales to the United States began to reach sufficient scale to merit consideration of local production. Simultaneously, yen-to-dollar appreciation in 1978 threatened export growth and reduced the yen-cost of U.S. investment.

After NEC initiated the first move in 1978, its Japanese competitors, facing many of the same conditions, followed in rapid succession: Hitachi and Fujitsu moved in 1979; Toshiba in 1980; Hitachi again in 1981; Mitsubishi in 1983. This sequence of investments is typical of imitative behavior among oligopolistic rivals and was especially common in highly concentrated Japanese industries.

Once Japanese competitors, buyers and suppliers had decided to invest abroad, their subsequent decisions on plant locations were sometimes shaped by the incentives offered by governments at all levels — national, regional and local — competing with one another for employment-generating investment.

For example, when Japanese automakers were wooed to Ohio and England, they tended to bring their parts suppliers along. For transplanted Japanese suppliers, new sales abroad represented one of the few possibilities for growth, given a stagnant home market and trade restrictions abroad.

Even the largest Japanese steel companies, wanting to be close to their car-making customers, invested nearby in rapid succession and, through joint ventures with existing U.S. steelmakers, entered an industry which their own exports had threatened with massive unemployment.

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Politics and the Economic Slowdown

Economy Seen Cooling As Yen Limits Exports

By Paul Maidment

TOKYO — Japan faces the prospect of something it has not known for three and a half years: an economy that has stopped expanding.

With the yen's appreciation against the dollar trimming export volumes, economic growth has slowed and unemployment is rising. A swelling current-account surplus is doing little to ease frictions with trading partners who want Japan to import more.

For all the talk by the country's politicians and bureaucrats about restructuring the economy to find new areas for domestic growth, private consumption is not, for now, picking up the slack. So, Prime Minister Yasuhiro Nakasone's fiscally austere government is, reluctantly, planning to pump an extra 3-trillion-yen worth of demand into the economy through a supplementary budget later this year.

Gross national product is now forecast by the government's Economic Planning Agency to grow at 2.8 percent in the current year, against 4.2-percent growth in fiscal 1985 and the agency's initial forecast of 4-percent growth. Private forecasters believe the economy will do well to grow by 2 percent in the current year. In the January-March quarter (the fourth quarter of fiscal 1985), the GNP contracted at an annual rate of 2 percent. It was the first quarter-on-quarter fall in 11 years.

The deflationary effect of the yen's appreciation against the dollar through lost exports has had a swifter impact on the Japanese economy than the potential benefits of cheaper raw material imports, particularly of crude oil. The dollar has fallen by more than 40 percent against the yen since the dollar was at its peak in February, 1985. However, Japan's import prices fell by 42 percent in the year to July. But wholesale prices only dropped 10 percent and consumer prices have risen by almost 1 percent over the same period.

The preponderance of raw materials in Japan's import bill, long-term crude-oil import contracts and the country's labyrinthine distribution system and other nontariff barriers have combined to work against the benefits of improved terms of trade. It takes an average of seven months for cheaper raw material imports to work through the production chain to cheaper manufactured products, according to economists at the Long Term Credit Bank of Japan.

Meanwhile, the country's exporters have been hurt. Exports in July fell 0.9 percent in volume terms from the previous month's levels, their fifth successive monthly drop. They are expected to decline by 1.2 percent over the full year, against an originally forecast fall of 0.2 percent.

Imports in July rose by 21.3 percent in volume terms. That was the third consecutive month in which imports showed sharp increases. But the figures are deceptive, because of hefty gold imports needed to strike commemorative coins to mark the 60th anniversary of Emperor Hirohito's accession. Senior Finance Ministry officials say that if these are left out, imports would have grown by only about 10 percent a month in dollar-value terms in the three months to July. The Industrial Bank of Japan forecasts that the volume of imports will grow by 4.7 percent in the current fiscal year.

None of this is having an immediate impact on the dollar value of Japan's trade except to make the politically contentious surplus look bigger. The trade surplus in July widened to a record $8.67 billion, up from $7.81 billion in June and $5.46 billion in July 1985. The surplus for the full year is likely to top $80 billion. The Economic Planning Agency says that because of the J-curve effect, the trade surplus is unlikely to start shrinking before the first quarter of 1987, assuming no further appreciation of the yen.

The current-account surplus for fiscal 1986 is forecast to be $77.6 billion, more than twice as much as fiscal 1984's $37 billion. The deficit in the balance of trade in nonmerchandise items is diminishing as the rapid increase in investment in foreign bonds produces an inflow of investment income. In August, the Finance Ministry announced a series of measures to encourage greater capital outflows, including easing the restrictions on investment in foreign securities by insurance companies and trust banks.

The yen-denominated trade figures give a better indication of the effect the currency's appreciation is having on the domestic economy. Measured that way, exports in July were 20 percent lower than a year earlier.

Small and medium-sized exporting firms have been first and hardest hit. Bankruptcies caused by the rise of the yen rose from 10 a month in August 1985 to more than 40 a month by last June. The official unemployment rate was a record 2.9 percent in July, up from 2.7 percent in June, the average level at which it had stood during the three previous years.

The current level of unemployment is high by Japanese standards. Furthermore, Japan's method of compiling its index of joblessness overstates the true level of employment. Were the figures to be calculated in the same way as in the United States, the unemployment rate would be twice as high, officials acknowledged.

The signs are that there are more jobs to be lost yet. Unemployment among men in July topped 3 percent for the first time. The number of recipients of unemployment benefits rose by 2.9 percent in the April-June quarter.

In towns dependent on single industries, usually low-tech exports such as textiles, household wares and ceramics concentrated in small firms, the increase is markedly higher. In Tsubame, a center of cutlery making, the number of recipients of unemployment benefits in the second quarter was 22 percent higher than a year earlier.

Exporters have struggled to cut their costs as fast as they have had to cut export prices (such prices in yen terms were 16 percent down in June from a year earlier). As well as shedding jobs, they have been moving production offshore faster than otherwise would have been the case.

But exporters from cutlery makers to producers of consumer electronics are being squeezed on several fronts. The appreciation of the yen against the dollar is making their goods increasingly uncompetitive in the key American market, especially against similar exports from lower-cost developing countries such as South Korea and Taiwan that have not let their currencies appreciate against the dollar.

Other markets have collapsed. Exports to China, which have been experiencing a foreign-exchange squeeze since early 1985, are likely to fall by 41 percent in the current fiscal year, those to the Middle East by 45 percent. The only region in which exports are likely to increase is Europe.

The move of production offshore is one reason for the slowing pace of domestic investment. Another is the decline in corporate earnings, forecast by the Industrial Bank of Japan to fall 20 percent in the current fiscal year. The decline in capital investment is most marked in manufacturing, where fixed investment fell by 2 percent in January-March. By contrast, fixed investment in nonmanufacturing rose by 24.1 percent, indicating how the economy is becoming skewed toward services.

There are, however, signs to indicate that domestic economic activity during the current fiscal year may not collapse in the way that export-led demand has. Housing starts in July increased by 13.5 percent, following the fall in interest rates and government prompting of the banks to lend more for home-buying. Orders recieved for private-sector construction rose 28 percent in July.

Although consumers have yet to see much by way of lower prices because of the expensive yen, department-store sales, the biggest component of retail sales, have shown a steady increase throughout the year.

The relative buoyancy of consumer spending and activity in the nonmanufacturing sector are held up by those who fear that reflating the economy only risks overheating it. The Bank of Japan, the central bank, has opposed pressure from the United States and lobbies within Japan, including the Finance Ministry, to cut further its discount rate.

The bank worries that rising stock and property prices and, a peculiarly Japanese indicator, golf club memberships are ample evidence that there is enough liquidity in the economy as it is. The money supply has been running above its target growth rate; the broad measure was 8.7 percent higher in July than a year earlier and issues of new banknotes increased by 7.7 percent over the same period.

The government, though, has accepted the need to prime the economy with an extra 3 trillion yen of demand. Given its aim of eliminating the budget deficit by 1990 and the high Japanese savings rate, tax cuts have been rejected in favor of public works.

Many commentators, however, doubt the immediate effectiveness of deficit-financed capital expenditure. Nomura Research Institute estimates that in the two years following a 1-trillion-yen increase in public works, real GNP would be boosted by only 0.2 percent each year and the trade surplus reduced by $1.1 billion and $1.3 billion, respectively. More effective would be to stimulate private-sector demand, but that means structural changes to the economy to ensure that the benefits of improved terms of trade get translated into actual consumption.

Matsumoto/Sygma

Prime Minister Nakasone, leading rally in legislative election campaign.

Trade Poses Challenge To Nakasone's Policies

By Susan J. Pharr

WASHINGTON — After leading Japan's ruling Liberal Democratic Party to a sweeping victory in this past summer's double election, Prime Minister Yasuhiro Nakasone faces a new round of problems — most of them linked to the economy and trade. On Sept. 11, his party voted to give him one more year, until October 1987, to find solutions.

Not since coming into power in 1982 has Mr. Nakasone been in a stronger position to tackle the issues before him. With a public approval rating of close to 60 percent, he is without question Japan's most popular postwar prime minister.

In the past, a major constraint on getting things done has been his weak base of support within the Liberal Democratic Party. Even after the election, his own faction continues to rank fourth in size among the party's five factions. But even his worst critics in the party are prepared to admit that Mr. Nakasone's high-profile leadership, and his finesse in dealing with foreigners, paid off for them at the polls, helping to bring the LDP its most impressive victory since the party was formed in 1955.

Never has the opposition camp been at such a low ebb. The tiny New Liberal Club, which had joined the Liberal Democrats in coalition after the latter's poor showing in the 1983 election, disbanded following the LDP's victory in July. Most of its members have announced that they will join the LDP, swelling the ruling party's strength to 309 seats in the 512-seat lower house.

The Japan Socialist Party, the largest opposition party, has elected Takako Doi, the first woman to head a major political party in Japan, as its leader after a loss of 25 lower house seats in the July election.

There are hopes that Mrs. Doi, a moderate Socialist who has support from both the party's left and right wings, can revitalize the deeply divided grouping and broaden its base by appealing to women voters. But with only 86 seats, the JSP has a long way to go before it can challenge the conservative majority, and prospects for an opposition coalition have seldom seemed so distant.

As soon as the election ended, Mr. Nakasone faced a new obstacle: a party rule that barred him from a third term. In light of his role in leading the Liberal Democrats to their unprecedented victory, party leaders had no troubled agreeing that Mr. Nakasone had earned more time in office, but they were divided over how much longer to give him. Some opponents favored an extension of only two months.

The compromise reached, in which the party finally moved to grant him one more year after his current term ends Oct. 30, reflects Mr. Nakasone's strengthened position within his party, but it was well short of the two years his supporters had sought.

Jockeying to succeed Mr. Nakasone as prime minister are those referred to as "the new leaders" within his party. Out front are Shintaro Abe, 62, currently chairman of the LDP's executive council, and Noboru Takeshita, also 62, secretary-general of the party.

Mr. Takeshita, heir apparent to the 140-member Tanaka faction, the largest of the LDP's rival factions, and well-liked within the party, has a numerical advantage in the race if, indeed, he is able to unite the Tanaka faction behind his candicacy. Mr. Abe, new head of an 82-member faction led until July by former Prime Minister Takeo Fukuda, gained prominence during his term as foreign minister in the previous cabinet and enjoys considerable popular support.

Also in the race is Kiichi Miyazawa, 66, finance minister and new head of the 87-member faction led until recently by former Prime Minister Zenko Suzuki.

> Not since coming to power in '82 has Mr. Nakasone been in a stronger position.

On most policy issues, the three chief contenders are not far from Mr. Nakasone. In the struggles within Japan's ruling party, personality and style often matter more than position on issues. But a credible style and the ability to represent Japan's interests abroad have become crucial, given the trade conflict. Many observers in and outside Japan wonder whether the new generation of conservative leadership now in line to follow Mr. Nakasone can fill his shoes.

Since the election, Mr. Nakasone has moved quickly to assert his leadership, announcing a plan to invite Mikhail Gorbachev to Tokyo early next year, in what would be the first visit ever of a Soviet leader to Japan. In early September, he took the step, rare in Japanese politics, of firing his minister of education, Masayuki Fujio, for public remarks that were seen by South Korean and Chinese officials as attempting to whitewash Japan's conduct before and during World War II.

SUSAN J. PHARR currently holds the Japan Chair at the Center for Strategic and International Studies at Georgetown University. She is on leave from Harvard University where she is a professor of government.

Automakers Trying to Cut Costs As Foreign Competitiveness Drops

By John Burgess

TOKYO — The Japanese auto industry would just as soon that 1986 had never happened. The yen has soared to its highest point ever, cutting sharply into producers' competitiveness overseas. Quotas on exports to the United States, their largest foreign market, have been extended for another year and the first South Korean cars have gone on sale there.

Japan produced about $52 billion worth of vehicles last year. The industry employs directly or indirectly about 10 percent of the country's entire work force. Its troubles are not yet at the crisis stage, but they have deep implications for the economy as a whole if they continue.

Above all, it is exchange rates that are hurting the industry, which exports more than half of all the 12 million vehicles produced here each year. Since September last year, Japan's currency has soared 58 percent against the U.S. dollar.

"The yen's appreciation took place too suddenly and over too wide a range," Shoichiro Toyoda, president of Toyota Motor Corp., Japan's largest auto producer, told Newsweek magazine recently.

Toyota announced a 17-percent drop in profits in the year that ended June 30, a decline blamed largely on the strong yen. The number two producer, Nissan Motor Co., reported that its profits were down 68 percent in the year that ended March 31.

The country's leading financial newspaper, Japan Economic Journal, has predicted that Nissan may actually lose money in the first three months of 1987, which would be the first such loss since the company began compiling

> Above all, it is exchange rates that are hurting the industry.

quarterly statistics in 1955. (Nissan says that it is too soon to tell.)

Factories and offices of all of Japan's nine automobile manufacturers are under strict orders to cut costs. Nissan has implemented 10-percent pay cuts for its 50 or so directors and "voluntary" cuts for midlevel managers. It is reducing executive travel and electricity consumption.

The yen's rise has also sped the pace of investment in the United States. That process was already well under way as a means of dealing with quotas for exports to the United States, which this spring were extended for one year, unchanged at 2.3 million cars per year.

In March, Fuji Heavy Industries, maker of the Subaru, and Isuzu Motors Ltd. announced that they would establish a joint plant at an unselected site in the United States. Plans call for annual production of 120,000 cars and light trucks when the plant opens in 1989, with capacity to rise to 240,000 per year later on.

That brought to seven the number of Japanese companies that are producing in the United States — Nissan, Toyota and Honda Motor Co. — or have formal plans to do so — Fuji, Isuzu, Mazda Motor Corp., Mitsubishi Motors Corp. In addition, Toyota is planning a new, wholly owned plant to supplement existing joint-venture production with General Motors.

Auto producers are also moving to buy parts overseas, breaking old patterns of using Japanese suppliers for almost everything. Here too, both economic and political forces are at work: the strong yen has made parts from Taiwan and South Korea an attractive means of cutting costs. And the United States has zeroed in on parts as a new area of trade pressure.

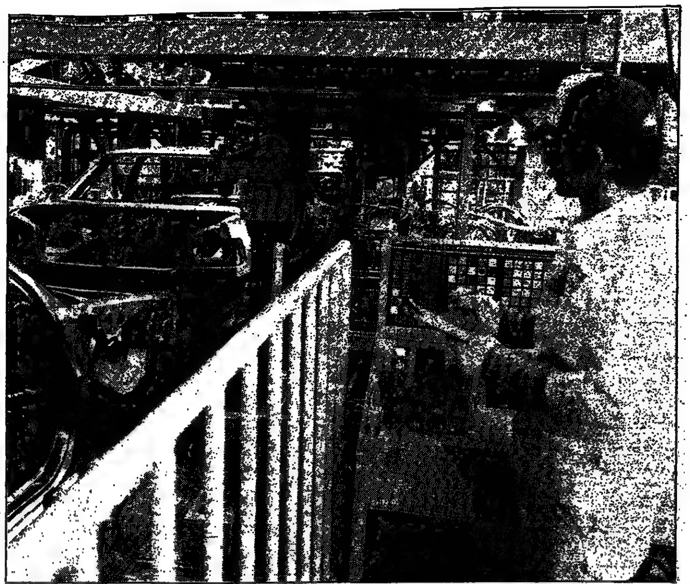
So far, the Japanese have managed to keep sales in the United States on the rise by holding price increases to the 10-percent to 12-percent range and absorbing the rest of the exchange differential themselves. They have also been helped by the fact that prices of U.S.-made cars have risen at the same time. But they can probably not absorb these losses indefinitely.

There is more bad news in the form of new competition abroad, Korean cars. The first Excel, made by South Korea's Hyundai group, was introduced in the United States early this year and the car is already expected to exceed a 1986 sales target of 100,000 units. A second Korean-made car, the Lemans, produced by a joint venture of GM and the Korean Daewoo group, is scheduled to go on sale in the United States early next year.

Meanwhile, there is no hope for relief in the Japanese market. "Sales capacity at home is basically full," said an official at the Japan Automobile Manufacturers Association, "unless there is some fundamental change, such as every family deciding to own two cars or road and parking space suddenly increasing."

Needless to say, no one is expecting such change.

JOHN BURGESS, the Tokyo correspondent of The Washington Post, covers Japan and Korea.



Automobiles being inspected at a Japanese-owned plant in the United States.

Cheaper Oil Hampers Energy Research

By Lucille Craft

TOKYO — Japan, the world's second largest oil importer, will save billions of dollars this year on its petroleum bill. But the slump in oil prices has created a conundrum for this resource-impoverished nation: How to proceed with research on alternative energy.

"The most serious influence [of cheaper oil] on the energy issue is on the development of new energies, such as solar, geothermal and biochemical," said Toyoaki Ikuta, president of the Tokyo-based Institute of Energy Economics, a privately sponsored think tank with a large voice in Japanese energy policy.

Since the oil shocks of the 1970s when the country's economy was hurt by the shutoff of Middle East petroleum, that policy has emphasized a secure, stable oil supply and the diversification of energy sources to lessen the reliance on a single fuel.

But because taxes on oil products pay for alternative energy research, oil field exploration and national and private stockpiles, the government is in a quandary about how to make up this year's shortfall in funding and whether those programs are justifiable when oil is so inexpensive.

In 1983, the most recent statistics available, new energies accounted for about 0.2 percent of total energy supply. Government plans call for increasing that amount to between 35 to 55 million kiloliters, or about 9 percent of total energy supply, by the 21st century. Government subsidies for research and development in fiscal year 1985 totaled 27 billion yen ($174 million).

Mr. Ikuta estimates that oil tax revenues are down by nearly half compared to last year, a result of both the oil glut and the yen's 40 percent appreciation against the dollar. And cheaper oil has erased the incentives for pursuing alternatives and exploring new oil fields.

"My personal view is that, unless oil prices go up to $30 a barrel, the development of new energies is difficult [to justify] in terms of economics," Mr. Ikuta said. But midterm forecasts by his institute and the government call for oil prices to hover at around $20 a barrel.

The critical decision facing the government of Prime Minister Yasuhiro Nakasone this fall is whether or not to increase the current 4.7-percent tax on oil products. Without raising the tax to at least 6.7 percent, Mr. Ikuta said, projects like coal liquefaction and synfuels may be doomed.

A spokesman for the Ministry of International Trade and Industry's Agency for Natural Resources and Energy said that "no projects will be killed. The schedule may be delayed a little, but all programs will be preserved."

And a tax increase is unnecessary, he said, because money can be found elsewhere in the budget to make up the shortfall.

Less vulnerable to fluctuations in oil prices is funding for nuclear and coal-fired power, which remain competitive, and also are funded not just by oil taxes but also by levies on electricity.

Utilities, according to Linda Daquil, an analyst with W.I.Carr, have expanded operating periods for oil-fired stations, but there are no plans to build new oil-fired stations.

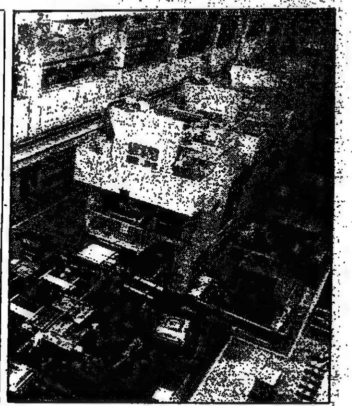
All sides agree that eventually oil prices will start climbing again, so this year's glut has failed to temper Japan's long-term commitment to rapidly weaning itself away from oil and onto nuclear power, the country's only chance for self-sufficiency in energy supply.

After the oil and coal price decline and the Chernobyl accident, the energy advisory committee of the Ministry of International Trade and Industry recently issued its "nuclear energy vision" report. It calls for doubling nuclear power's share of electricity generation by the year 2030 — from the current 26 percent of total electricity generation, to 58 percent, with coal, oil and liquefied natural gas relegated to lesser roles in the generation of electricity.

Mr. Ikuta is skeptical about whether the MITI panel's targets are realistic. "Frankly speaking, it will be very difficult for the Japanese government and utilities to reach the target written in the long-term nuclear vision."

Oil, liquefied natural gas and coal, along with nuclear energy, he predicted, will continue to be significant power sources in the next century.

LUCILLE CRAFT, a journalist based in Tokyo, reports for National Public Radio.



Factory in Fremont, California, is a joint venture of General Motors and Toyota Motor Corp.

Trade Gap Widens With U.S., Europe

Continued from page 9

growth. Japan's Economic Planning Agency is predicting growth this year of 2.8 percent, down from 4 percent previously estimated.

To help stimulate the economy Tokyo is planning a pump-priming program, estimated to cost $20 billion, but it remains to be seen whether this will boost imports. So far Japan has refused to let interest rates fall after last month's cut in the discount rate by the Federal Reserve Board.

In all the present maneuvering to open the Japanese market, there is a strong sense of déjà vu.

After two decades, American negotiators are still trying to widen the U.S. share in the $15-billion-a-year Japanese tobacco market of which American companies have only 3 percent.

Some years ago the Japanese promised to cut barriers on aluminum but, according to U.S. negotiators, these promises have not materialized.

Although supercomputers were invented in the United States and although Cray, the American-made machine, is the standard by which the world builds supercomputers, the United States has yet to sell a single such machine to a Japanese government bureau or a Japanese university.

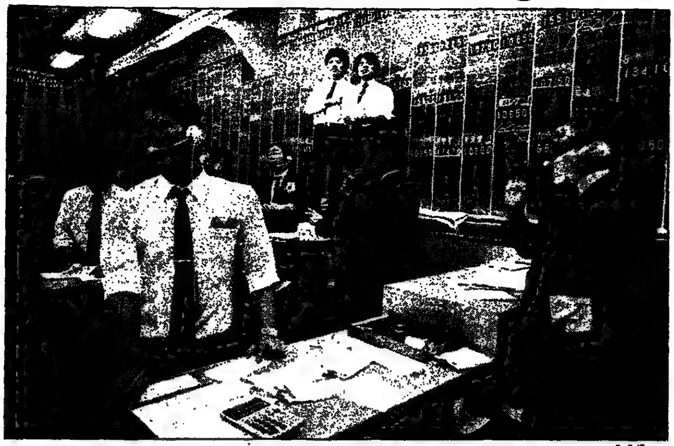
"Whether it's soda ash or coal in a declining industry or supercomputers or satellites in a growth industry, we find the Japanese unwilling to take even our most competitive exports," said Mr. Baldrige.

Japan's ambassador to Washington, Nobuo Matsunaga, said that Japan recognizes the importance of improving market access.

He listed as the main causes of the U.S. deficit not unfair Japanese trade practices, but the higher growth of U.S. demand compared to other countries, the higher value of the dollar, until recently, and the drop in import demand in the Third World because of accumulated debt.

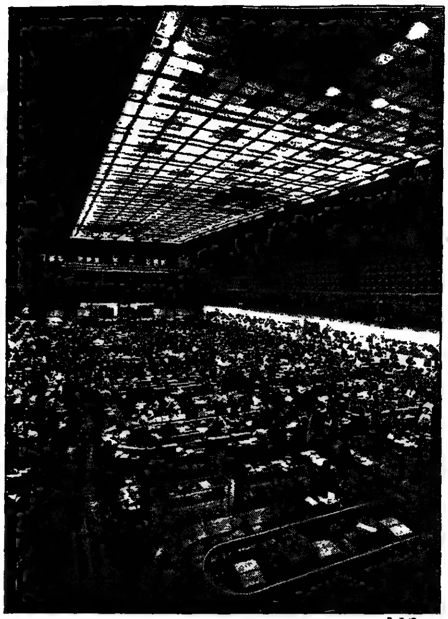
Tokyo Market Retains Speculative Edge

Investors say the influence of foreign firms is being felt.



Deville/Gamma

Soaring demand and minimal supply drove prices up 40 percent between January and August.



Deville/Gamma

The bourse in Tokyo, the world's second largest stock market.

Special to the IHT

TOKYO — In the center of Tokyo's securities business district, where the new, high-technology Tokyo Stock Exchange occupies a full corner and cars roar across an overhead expressway, there is a tiny wooden shrine from which the area gets its name, *Kabutocho*. It is named after a golden *kabuto* or helmet, said to have been buried there in the 11th century by a victorious warrior in gratitude to the gods.

The Tokyo stock market, considered by investors to be a key link in the globalization of equities markets, also remains uniquely Japanese.

One of the most often mentioned peculiarities of the Tokyo market is that, although it is the second biggest and one of the fastest growing markets in the world, it retains much of the speculative flavor of smaller markets. Buying and selling by individuals plays a key role in the market, accounting for more than 50 percent of trading in 1985. Share prices regularly swing 15 percent in a single day. The market index dropped 460.73 points on Friday and and 637.33 more points Tuesday, the next trading day, to close at 17,463.19.

Investors seek primarily capital gains, not dividends, because capital gains are virtually tax free in Japan and the average yield stands at only 0.7 percent, against about 4 percent in Western markets.

"The lack of capital-gains tax means spectators are prepared to take short-term moves, which leads to great volatility," said one foreign fund manager in Tokyo.

Alongside this is a supply-demand equation extremely weighted on the demand side. High liquidity, caused by a flood of cash from growing pension funds, a high savings rate among individuals and shift away from capital investment by corporations, is set against a market in which only 20 percent to 35 percent of the shares are freely traded. The rest are held untraded by so-called friendly, "stable shareholders."

This soaring demand and minimal supply drove Tokyo stock market prices up 40 percent from January to August. Despite the decline in recent days, fund managers and analysts generally take a bullish view of the medium term, expecting the market to head up by the end of the year.

The investor's standard gauge in the West, the share price to earnings per share ratio (P/E ratio), loses power as an analytical tool in Tokyo, analysts say. While Western markets stand on average P/Es of about 14, Tokyo has exceeded 40, and in some sectors 100.

"The low dividends and high P/E ratios mean there is less to tie the investors into reality than when people buy for yield," said Christian Wignall, manager of GT Management Japan, a British-based fund management firm.

Adding to the emotional nature of the market's movements is the power of the major Japanese brokers known as the Big Four — Nomura, Daiwa, Nikko and Yamaichi. As the largest securities company in the world, Nomura leads, but each has an extensive retail sales network and often orchestrates market movement.

"The Big Four . . . have large pools of individual money and special investment trusts which they can influence strongly," said Mr. Wignall. "They're so big in relation to the customers that they have . . . a great ability to corral people into shares."

The Tokyo market has more than kept pace with New York and other major markets in the bull run since 1983. From 1980 to 1985, the Japanese market grew 150 percent against 60 percent for U.S. markets. Last year the Nikkei average, the standard reference for market movement similar to the Dow Jones industrial average on Wall Street, rose 13.7 percent to 13,113.32. By Aug. 15, it had risen to 18,376.41.

Since it opened in 1949, the market has grown nearly 200 times and has played a significant, and recently changing, role in funding corporate needs. From the early 1960s until the 1973 oil shock, the market developed in concern with Japanese industry. Companies sought financing to build their businesses as Japan geared up to become a major world economic power. From the mid-1970s, fund-raising through securities tended to be used to pay back debt incurred in the initial phase.

Now, Japanese companies are turning to equities not to expand operations, but to inflate their listed profits.

Increasingly, the pattern is shifting from issuing equities directly to convertible bonds or the latest rage, warrant-attached bonds, which Japanese have only this year been allowed to trade.

In the first five months of this year, 44 convertible bonds and 57 bonds with equity warrants attached were issued in domestic and foreign currencies, with a total value of 1.26 trillion yen ($84 billion) . Another 117 new bonds are due to be issued starting from September. This compares to issues of 142 convertible bonds and 91 warrant-attached bonds in calendar year 1985 and 67 and 58 respectively in 1983. Meanwhile, direct equity issues in the first five months of 1986 amounted to only 160 million yen.

Much of the money companies raise in the market they re-invest in securities in a money game called *zaitekku* in Japan — *zai* means money and *tekku* is short for technology. Securities analysts estimate 30 percent to 50 percent of the profits claimed by some leading companies are drawn not from the firm's main business, but from money manipulation in the market.

Recently, some companies have turned to financing to mask losses in their operations. With the yen about 40 percent higher than a year ago against the U.S. dollar, many companies, especially exporters, are suffering falling sales. They apply their stock market gains to offset operating losses and avoid publishing balance sheets that show them in the red, analysts said.

At the rate things are going, some analysts and economists say the market is hyperactive and headed for a fall, although the exact timing of the downturn is unclear.

"It's a paper money game similar to the 1920s in the U.S.," said David Gerstenhaber, an economist with Morgan Stanley International (Tokyo).

But others feel that the money is still there, low inflation will help corporations and Tokyo will continue going strong. "Next year cannot repeat this year, but we should have a soft landing," said Colin Armstrong, fund manager at Jardine-Fleming (Securities) Japan. "The savings are still there to finance it."

In any case, foreign investors say, the Tokyo market cannot be ignored. Not only is it three times the size of the U.K. market and half the size of the U.S. market, its role as a link in a global trading network with London and New York also makes it essential to establish a strong presence there.

Liberalization of Japan's financial markets has led to a doubling to 24 of the number of foreign securities firms operating as branch offices in Tokyo in the past year and to the opening of the exchange to foreign members. Six foreign firms took seats this year — Merrill Lynch International Bank, Ltd., Goldman Sachs International Corp, Morgan Stanley International, Inc., Vickers Da Costa, Ltd., Jardine-Fleming (Securities) Ltd. and S.G. Warburg and Co. (Japan) Ltd.

Investors say foreign firms are already influencing the Tokyo market. Some say they are forcing Japanese firms to improve the quality and approach of their equities research.

Foreigners are also bringing Tokyo a taste of block-trading, Western-style, some investors say. Whereas Japanese have usually accepted a block order only if they had clients on the other side to match it immediately, foreigners are introducing the idea of traders taking large-scale orders onto their own accounts after the local market has closed and searching for worldwide clients overnight. A British company with a Bermuda-based fund can settle a deal on the phone in Japan and have the order written up in New York.

Also, with Japanese brokers making a bid for foreign business in overseas markets at the same time foreign firms do so in Japan, the result is global market makers.

"The market used to be a physical place to meet and talk," said Mr. Wignall. "Now it's a network of telephone contacts around the world. That's the real market."

Tuesday's NYSE Closing

Via The Associated Press

NYSE Diary

	Close	Prev.
Advanced	644	801
Declined	945	837
Unchanged	410	380
Total Issues	1999	2018
New Highs	7	6
New Lows	37	19

Odd-Lot Trading in N.Y.

	Buy	Sales	*Short
Sept. 15	276,382	811,504	293,188
Sept. 12	339,013	1,074,023	293,690
Sept. 11	371,418	876,129	107,320
Sept. 10	258,472	464,456	6,270
Sept. 9	272,822	502,984	1,887

*Included in the sales figures

Tables include the nationwide prices up to the closing on Wall Street and do not reflect late trades elsewhere.

$4.3-Billion Contract for F-16s

The Associated Press

WASHINGTON — The U.S. Air Force and General Dynamics Corp., after months of negotiation, have agreed on a second, multiyear contract for F-16 jet fighters totaling $4.3 billion, the air force has announced.

The contract, announced late Monday in a brief listing of awards, calls for General Dynamics' division in Fort Worth, Texas, to provide 720 F-16s by May 1991.

The contract reflects the purchase of 180 of the aircraft each year during the period running from fiscal 1986 to fiscal 1989.

The four-year purchase, the second such multi-year procurement for the F-16, was authorized by Congress in late 1985 in a bid to hold down production expenses. The air force and General Dynamics, the second-largest U.S. military contractor, have been negotiating the transaction since then.

The first multiyear purchase of the plane, covering the period from fiscal 1982 to fiscal 1985, included 480 aircraft at a cost of roughly $2.6 billion. The air force believes it saved roughly $257 million by buying that way.

The air force said Tuesday that it expected to save roughly $358 million by commiting itself now to the purchase of 720 planes over the four-year period.

The service previously has said such savings result from the ability of General Dynamics to maintain a stable production base and assembly-line operation, and to line up its own suppliers and obtain components at existing prices.

"This certainly is a welcome step, because it will assure efficient and cost-saving continuance of the F-16 production line into the next decade," Al Spivak, a company spokesman in Washington, said Tuesday.

The F-16 Falcon is a single-engine, high-performance jet designed for both aerial combat and ground attacks. It can be equipped with a variety of air-to-air and air-to-surface missiles and also carries a multibarrel cannon. The new model will also be capable of carrying the Air Force's newest air-to-air missile, the AMRAAM.

The F-16 is being used to replace the air force's aging fleet of F-4 Phantom fighters.

The air force described the new agreement as "a firm, fixed-price contract," saying it also included "alternate mission equipment such as AIM-9 (missile) launchers and 300-gallon external fuel tanks" in addition to the 720 planes.

The latest F-16 award to General Dynamics comes at a time when the company is still competing with Northrop Corp. to provide an additional 270 to 300 planes sought by the air force for a purely air-defense role.

Northrop has entered its F-20 Tigershark in the competition against a modified F-16 that would not carry any equipment for air-to-ground attacks. The air force hopes to make a decision on the fate of that program by the end of this year.

(Continued on next left-hand page)

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Dow Average Rises 10.96. Story on Page 16. 4 P.M. PRICES UP

INTERNATIONAL MANAGER

Placing the Older Manager: Small Firms Seek Expertise

By ELIZABETH M. FOWLER
New York Times Service

NEW YORK — Thousands of dismissed middle and senior managers are looking for jobs. One small, new step on their behalf is being taken by the Senior Career Planning and Placement Service in New York, which recruits retired or dismissed older managers for specific jobs with foundations and small companies that cannot pay managers what they formerly received.

"We started in June and have placed six individuals so far, and we are working on seven other posts," Meade Chamberlin, the service's president, said. Mr. Chamberlin formerly was executive vice president of Mutual of Omaha. "We have started slowly to build on a sound base, but we anticipate tapping a major new market not being served."

"The difficulty with trying to fill posts with managers 50 and younger is they are expensive."

The recruiting service has found a chief financial officer for a small subsidiary of a large company; a real estate manager for rental units owned by a family company; a fund raiser for a nonprofit organization; a coordinator for a team searching for a president for a college; the manager of a small foundation, and a public relations officer for a Chicago office.

"The people hired are independent contractors," he said. That means they are not covered by the company's pension plan and handle their own Social Security payments. Salaries have ranged from $30,000 to $50,000 a year, probably half or less than that received in previous jobs.

"Age is not a problem once we talk to clients," he said. "We have gone to the 40 Plus Club for some of our people." The Forty Plus Club is a self-help group generally consisting of middle managers or engineers who have lost their jobs. They use joint efforts to find openings.

"The only difficulty with trying to fill posts with managers 50 and younger is that they are expensive," Mr. Chamberlin explained. They still have high mortgage payments and children in college.

HE THINKS the firm's idea of concentrating on placing older senior managers will encourage other organizations to help lower levels of middle management, where so many dismissals have taken place.

The firm bills a client company less than typical management recruiters — about 20 percent of the first year's salary, compared with 30 or 35 percent for the usual recruiting firm.

Mr. Chamberlin said that the nonprofit organization had received the blessing of some large management recruiting firms. Management recruiters work for client companies to fill their specific job needs.

Margaret Newborg, a vice president of Henchey & Co., an outplacement firm, says that the number of middle managers handled by her firm has doubled in the last year.

She suggests that middle managers who think they might lose their jobs should join associations, write articles and maintain contacts with friends and business acquaintances so that when dismissed they can start a job search quickly.

Barry Nathanson of Richards Consultants, a management recruiting firm, gets "50 unsolicited résumés a day" from middle managers seeking jobs. Although the firm keeps the résumés in its computer, he estimated "that only two or three" people a year were placed.

James Challenger of Challenger, Gray & Christmas, a Chicago outplacement firm, said that dismissed middle managers between the ages of 50 and 60 did find jobs and that it took them only about a week longer than younger managers, averaging 3.2 months in the second quarter of 1986.

The new recruiting firm for older people is a good idea, he said, but he deplored the concept that older managers should settle for lower salaries. He said that the managers his firm helped invariably found jobs paying the same or more. He opposes taking jobs on a commission basis, he said.

U.S. Trade In Record Deficit

2d-Quarter Gap Is $34.7 Billion

Compiled by Our Staff From Dispatches

WASHINGTON — The U.S. deficit in the broadest measure of foreign trade widened to a record $34.73 billion during the April-June quarter, the government reported Tuesday.

The Commerce Department said the deficit in the current account expanded 2 percent from the $34.04 billion posted in January through March, the previous record. Current account includes trade in merchandise and services, along with financial transactions.

The first-quarter figure was revised from a previously reported $33.67 billion, the department's Bureau of Economic Analysis said.

The new figures indicated the United States was on course to surpass the record yearly deficit in current account — $117.68 billion set in 1985.

As recently as 1981, the United States had a surplus in its current account as earnings on U.S. investments overseas were enough to erase perennial deficits in merchandise trade. But, since 1982, the deficits in the current account have mounted.

The United States, once the largest creditor nation, became a debtor in 1985. By year's end, it had become the largest debtor country, with a debt of $107.44 billion.

For the April-June quarter of this year, the deficit on trade in merchandise narrowed to $36.02 billion, compared with $36.46 billion in the January-March quarter.

Exports increased $1.1 billion, to $54.8 billion. Imports rose $700 million, to $90.8 billion.

Adding to the merchandise-trade deficit was an increase of $1.02 billion in unilateral transfer payments to other countries, which totaled $4.05 billion in the second quarter. The report said this increase came from higher levels of foreign aid to developing countries.

There was a $5.3-billion surplus in the service category, narrower by $100 million than in the January-March quarter. While foreigners

See TRADE, Page 21

Jacques Maillot with some of his advertising

Maillot's Mission: Air Travel for All

By Nina Martin
International Herald Tribune

PARIS — It is a rousing story: Jacques Maillot, then a 25-year-old Boy Scout leader, and a handful of student friends sitting around a table one Paris night discussing the philosophy and social justice of air transport, circa 1967. Their thesis was that in the modern world, international air travel by average people, not just the rich and powerful, was important but impossible because of exorbitant fares.

They would make it their mission, they declared, to bring affordable air fares to France and beyond. They formed a kind of nonprofit travel club, dubbed it "Nouvelles Frontières" after John F. Kennedy's inauguration speech, and mounted a 19-year struggle to democratize French travel.

One can almost hear the "Marseillaise" surging in the background when Nouvelles Frontières executives tell the story, and when the French press repeats it. Like Sir Freddie Laker of Britain, a discount-flight pioneer before him, Mr. Maillot has achieved virtual folk-hero status over the years, and in the last few months that image — part crusader, part entrepreneur, part underdog — has grown.

For it was Nouvelles Frontières that initiated the legal action that ended with the April ruling that air-fare regulation violates the Treaty of Rome. That decision, by the European Court of Justice, the European Community's highest court, has forced EC ministers to move against the cozy cartel that has dominated postwar air travel on the Continent.

Since the decision, Mr. Maillot's intense, alert eyes have peered from the pages of most French newspapers and magazines. Often he is photographed as Everyman, astride his motorcycle (he does not have an auto driver's license) and wearing a wool pullover.

He has regaled the nation with the story of how he arranged a month's trip to Morocco in 1965 for 500 francs ($75 at current exchange rates) a person (including food and lodging) at a time when round-trip air fare alone on Air France was more than three times that price. Of how he realized then that Air France pricing policies were "a scandal." Of how he was persecuted by French aviation officials every time he tried to cut another fare. And of how he succeeded so thoroughly in turning his "mission" into a profitable company that he rarely has time these days to indulge his own love of travel.

That carefully honed image, and shrewd business calculations, have established Nouvelles Frontières as the second-biggest tour operator in France after Club Méditerranée.

The number of clients has increased by 25 to 40 percent a year since 1967, to more than 502,000 in the fiscal year ended last Sept. 30. Revenue has grown at an equally strong pace, to 1.61 billion francs last year, up 25 percent from fiscal 1984. "The jet set of the poor," as the press calls it, has come to encompass much more than left-leaning students. Eighty-four percent of customers are 25 or older and many are not French.

Like Club Med, Nouvelles Frontières is a tour operator, not an airline company. It arranges trips via established charter companies or by buying unsold seats on big airlines for up to 70 percent off their regular price. But there the similarity ends. Club Med vacations are for people who want to forget the cares of the world; cost is little object. Nouvelles Frontières says its customers want to see as much of the world as they can, and care more about where they get than how comfortably they get there.

The company, which is privately held, arranges trips to more than 100 countries, including cruises and train excursions. It operates 67 offices in 13 countries, and its air carriers include Minerve, the French charter company it has kept aloft, and big airlines in the Middle East, the Soviet bloc and the United States. In fact, even Nouvelles Frontières' pro-cartel Western European competitors — including Air France — have chartered it airplanes and sold it empty seats.

"Air France, when it suits them and they have empty seats, know very well how to discount," said

See AIRFARES, Page 19.

LSE to Change Name, Join With Securities Body

Compiled by Our Staff From Dispatches

LONDON — The London Stock Exchange announced Tuesday that it would merge with a group of securities dealers and change its name to the International Stock Exchange, in a major move toward 24-hour, worldwide trading.

The London exchange said it would merge with the International Securities Regulatory Organization, the regulatory body for 187 securities firms and banks in the Eurobond market.

The move comes ahead of the long-awaited liberalization of the London exchange, set for Oct. 27.

Under the arrangement outlined Tuesday, a central electronic marketplace would trade leading international stocks when their home markets are closed and compete with home markets when they are open.

In a letter to members, the chairman of the London Stock Exchange, Sir Nicholas Goodison, said the new exchange would be "not only a very significant force in the trade in international equities, but possibly the most important such market in the world."

The exchange said the move "will concentrate in one marketplace the transactions both in domestic equities and in internationally traded equities in London which at present take place both on and off the exchange."

Ian Steers, chairman of the securities regulatory organization, said, "Negotiations were long and complex. There's a tremendous amount of detail still to be worked out."

The parties hope to complete the merger by the end of October.

Both sides had hitherto been preparing separately for what is known as the "Big Bang" on Oct. 27. On that day, the tradition-bound London exchange — the world's biggest after New York and Tokyo — removes fixed brokerage commissions on share purchases, as Wall Street did 11 years ago, and opens itself to free competition.

Bringing radical changes in the City, London's financial heart, the liberalization will end a distinction between "jobbers," a restricted group of traders who now work on the exchange floor, and "brokers," representing buyers of shares.

As well as forming the International Stock Exchange of the United Kingdom and the Republic of Ireland, the new merged body will also become the Securities Association, a self-regulatory body for the securities industry.

Britain's Financial Services Bill, still before Parliament, would require that there be a mechanism for regulating the exchange after the liberalization takes place.

Until now, the stock exchange has been concerned primarily with British equities and government bonds, as well as Irish issues.

There had been concern about fragmentation of the equities market in Britain, the exchange said, noting that the creation of the securities regulatory organization in November 1985 meant that there could have been two separate bodies covering share business.

In a news conference at the Bank of England, Sir Nicholas also said the agreement would open the door to participation by Japanese firms in the U.K. equities market, unless the Department of Trade and Industry objects.

The agreement "poses an interesting dilemma for the government," he said.

Forty-three Japanese firms belong to the International Securities Regulatory Organization, and thus should gain access to U.K. equity and bond markets.

But the Department of Trade and Industry has in the past opposed Japanese participation on grounds of a lack of reciprocity.

As a result of the agreement, the Japanese firms along with 45 firms from the United States, 31 from Europe, 11 from Canada, 13 from Australian and six from other parts of the world, should gain access not only to domestic and international share markets, but also to the markets for U.K. government bonds and share options.

Eurobonds would not be traded on the new exchange.

The Association of International Bond Dealers is expected to seek recognition from the British government as an official exchange for Eurobonds. *(AP, Reuters, IHT)*

Lorenzo and Texas Air: Taking Risks to Build

By Thomas C. Hayes
New York Times Service

DALLAS — Frank A. Lorenzo's complex bid to acquire People Express Inc. illustrates his penchant to act boldly and bargain hard when opportunities arise to build his Texas Air Corp., analysts say.

Texas Air's offer is conditioned on numerous concessions from the creditors and employees at People Express and its bankrupt subsidiary, Frontier Airlines. In return, Mr. Lorenzo has offered the possibility of jobs for many Frontier employees who were laid off when the carrier was shut down last month and full repayment for creditors.

"It's too early to say whether all of this holds water," said Robert J. Joedicke, an airline analyst with Shearson Lehman Brothers Inc. "There are so many ifs that have to come to pass before it is a fait accompli."

Texas Air was already expected to challenge United Airlines' position as the largest U.S. airline company, assuming it could persuade the Department of Transportation to approve its revised, $600-million offer to buy Eastern Air Lines.

The addition of People Express to the other carriers in Mr. Lorenzo's stable — Continental and New York Air — would put it far ahead of United. If both acquisitions are approved, Texas Air could dominate such key hubs as New York, Miami, Houston and Denver.

Some analysts said the offer for People Express amounts to a bargain hunt for airplanes at low cost. People owns 217 aircraft. They noted that the $125-million offer was an exchange of stock, the only way the debt-burdened Texas Air could have made the bid.

Mr. Joedicke said Mr. Lorenzo probably would have preferred not to bid for People Express while the Eastern offer was still unresolved.

"But he couldn't say to People: 'Wait around six months until I'm ready to take you into the family,' " Mr. Joedicke said. "Circumstances dictated that he had to move now."

Nonetheless, some analysts are concerned about the growing debt load at Texas Air. The company's offer for Eastern included taking on the obligation to repay $2.5 billion in the airline's long-term debt. That was added to a debt load at Texas Air that, at 82 percent of total capital, already was much higher than the industry average, at 53 percent.

Texas Air and Eastern together would have a combined debt of $3.7 billion. If it acquires People Express, Texas Air would be taking on $700 million more.

As part of the offer for People Express, Texas Air said it would pay $49.5 million in cash for 12 Boeing 727-200 aircraft, with $10 million advanced Monday.

Texas Air also plans to buy all of Frontier Airlines' assets for $176 million, with $25 million to be paid in cash and the balance in notes and assumption of Frontier's debt. Over time, Frontier's total operations would be absorbed by Continental. Similarly, People Express would be managed as a separate subsidiary of Texas Air for a while but ultimately would be merged into one of its units.

People Express placed Frontier into a Chapter 11 bankruptcy reorganization last month when United dropped its plan to buy the airline. Texas Air had offered to acquire People for $235.8 million in July, before United acquired rights to several Frontier gates at Denver's Stapleton International Airport. People rejected the offer.

Last weekend, Texas Air sold 14 takeoff and landing positions at Washington's National Airport, New York's La Guardia Airport, and Boston's Logan Airport to Pan American World Airways as part of its effort to win federal approval for its acquisition of Eastern.

Mexico Is Said To Seek Terms From Paris Club

Reuters

PARIS — Mexico is seeking a two-year debt rescheduling agreement with the Paris Club of Western creditor governments, diplomatic sources here said Tuesday.

Mexico's request is for the rescheduling of principal and interest on official debt due in 1986 and 1987, one source said.

A Mexican delegation headed by Angel Gurria, the chief debt negotiator, made the request of Paris Club officials Tuesday and negotiations are expected to continue Wednesday, they said. The Mexican delegation is expected to make clear on Wednesday how much money would be involved, they said.

The negotiations are running in parallel with talks between commercial banks and Mexico on a complex multibillion-dollar loan package backed by the International Monetary Fund.

Under the terms of that package, tentatively approved by the IMF, Mexico would receive a $1.6-billion standby credit from commercial banks and Western governments that would be revised upward by the IMF if oil prices or Mexican growth rates fall below target levels.

Currency Rates

Cross Rates *Sept. 16*

	$	£	D.M.	F.F.	H.L.	Gldr.	B.F.	S.F.	Yen
Amsterdam	2.314	3.422	112.88 *	34.46 *	0.1637 *	—	5.461 *	139.425 *	148.38 y
Brussels(a)	41.45	62.445	20.7898	6.22	3.003 *	18.3478	—	25.6198	27.140 *
Frankfurt	2.0635	3.031	—	30.625 *	1.4475 x	88.40 *	4.859 *	122.55 *	1.3165 *
London (b)	1.475	—	3.0320	9.901	2,083.00	3.413	60.525	2.444	228.60
Milan	1,414.70	2,083.75	689.73	210.69	—	611.17	33.309	853.89	9.044
New York(c)	—	0.681 #	2.0636	6.724	1,414.00	2.318	42.525	1.661	154.46
Paris	4.715	9.918	3.274	—	4.75 x	2.9022	15.822 *	4.052	4.3935 *
Tokyo	158.40	228.30	75.55	23.25	11.02 *	67.27	366.40 *	92.95	—
Zurich	1.655	2.4475	80.905 *	24.73 *	0.1173 *	71.640 *	3.904 *	—	1.0892 *
1 ECU	1.0269	0.6976	2.0916	6.8772	1,447.47	2.27	43.479	1.697	160.345
1 SDR	1.20884	0.81643	N.Q.	N.Q.	1,700.46	2.7983	N.Q.	3.904	187.97

Closings in London and Zurich, fixings in other European centers. New York rates at 4 P.M. (a) Commercial franc (b) Amounts needed to buy one pound (c) Amounts needed to buy one dollar (*) Units of 100 (x) Units of 1,000 (y) Units of 10,000 N.Q.: not quoted; N.A.: not available. (#) To buy one pound: $U.S.1.485

Other Dollar Values

Currency	per U.S.$	Currency	per U.S.$	Currency	per U.S.$	Currency	per U.S.$
Argen. austral	0.9501	Fin. markka	4.913	Mex. peso	742.00	Soviet ruble	0.6776
Austral. $	1.6103	Greek drac.	134.95	Norw. krone	7.3125	Span. peseta	134.10
Austr. schil.	14.40	Hong Kong $	7.802	Phil. peso	20.40	Swed. krona	6.907
Belg. fin. fr.	42.70	Indian rupee	12.49	Port. escudo	146.00	Taiwan $	36.82
Brazil cruz.	13.77	Indo. rupiah	1,644.00	Saudi riyal	3.75	Thai baht	26.085
Canadian $	1.384	Irish £	0.7429	Sing. $	2.169	Turkish lira	686.15
Chinese yuan	3.7036	Israeli shek.	1.4768	S. Afr. rand	2.2746	UAE dirham	3.673
Danish krone	7.7475	Kuwaiti dinar	2.9285	S. Kor. won	878.30	Venez. boliv.	20.00
Egypt. pound	1.35	Malay. ring.	2.6275				

£ Sterling: 1,1008 Irish £

Sources: Banque du Benelux (Brussels); Banco Commerciale Italiana (Milan); Banque Nationale de Paris (Paris); Bank of Tokyo (Tokyo); IMF (SDR); BAII (dinar, riyal, dirham); Gosbank (ruble). Other data from Reuters and AP.

Interest Rates

Eurocurrency Deposits *Sept. 16*

	Dollar	D-Mark	Swiss Franc	Sterling	French Franc	ECU	SDR
1 month	5 [illegible]-6 [illegible]	4½-4 [illegible]	4 [illegible]-4 [illegible]	9[illegible]-9[illegible]	7⅛-7¼	7 [illegible]-7 [illegible]	6
2 months	5 [illegible]-6 [illegible]	4½-4 [illegible]	4¼-4⅜	9 [illegible]-9 [illegible]	7⅛-7¼	7 [illegible]-7 [illegible]	5 [illegible]
3 months	5 [illegible]-6 [illegible]	4½-4 [illegible]	4¼-4⅜	9 [illegible]-9 [illegible]	7 [illegible]-7 [illegible]	7 [illegible]-7 [illegible]	5 [illegible]
6 months	5 [illegible]-6 [illegible]	4½-4⅝	4¼-4⅜	9 [illegible]-9 [illegible]	7⅛-7¼	7-7⅛	5 [illegible]
1 year	6⅛-6¼	4½-4⅝	4¼-4⅜	9 [illegible]-10[illegible]	7 [illegible]-7 [illegible]	7-7⅛	6

Sources: Morgan Guaranty (dollar, DM, SF, Pound, FF); Lloyds Bank (ECU); Reuters (SDR). Rates applicable to interbank deposits of $1 million minimum (or equivalent).

Key Money Rates *Sept. 16*

	Close	Prev.
United States		
Discount Rate	5½	5½
Prime Rate	7½	7½
Broker Loan Rate	6¾-7	6¾-7
Federal Funds	5 13/16	5 15/16
Com Paper 90-179 days	5.47	5.47
3-month Treasury Bills	5.11	5.14
6-month Treasury Bills	5.30	5.33
2-month CD's	5.55	5.40
3-month CD's	5.40	5.40
Japan		
Discount Rate	3½	3½
Call Money	4 9/16	4½
2-month Interbank	4⅝	4⅝
West Germany		
Lombard Rate	5.50	5.50
Overnight Rate	4.45	4.45
1-month Interbank	4.55	4.55
3-month Interbank	4.55	4.55
6-month Interbank	4.60	4.60
Britain		
Bank Base Rate	10	10
Call Money	9½	10
3-month Interbank	9 15/16	9 41/64
91-day Treasury Bill	n.a.	9⅝
France		
Intervention Rate	7	7
Call Money	7½	7
1-month Interbank	7 1/16	7 1/16
3-month Interbank	7 1/16	7 1/16
6-month Interbank	7 1/16	7 1/16

Sources: Reuters, Bank of Tokyo, Commerzbank, Crédit Lyonnais.

Asian Dollar Deposits *Sept. 16*

1 month	6 - 6⅛
2 months	5 [illegible] - 6 [illegible]
3 months	5 [illegible] - 6 [illegible]
6 months	5 [illegible] - 6 [illegible]
1 year	6⅛ - 6¼

Source: Reuters.

U.S. Money Market Funds *Sept. 16*

Merrill Lynch Ready Assets
30 day average yield: 5.95
Telerate Interest Rate Index: 5.691

Source: Merrill Lynch, Telerate.

Gold

Sept. 16

	A.M.	P.M.	Ch'ge
Hong Kong	414.70	413.00	— 2.37
Luxembourg	414.25	—	— 2.25
Paris (12.5 kilo)	411.92	415.66	+ 2.50
Zurich	414.38	414.63	+ 0.13
London	413.55	417.25	+ 4.35
New York	—	415.00	— 2.30

Luxembourg, Paris and London official fixings; Hong Kong and Zurich opening and closing prices; New York spot market close. All prices in U.S. $ per ounce.

Source: Reuters.

Tuesday's NYSE Closing

Tables include the nationwide prices up to the closing on Wall Street and do not reflect late trades elsewhere.

(Continued)

(Continued)

U.S. Futures

Via The Associated Press

Sept. 16

Grains

Livestock

Food

Metals

Financial

Industrials

Stock Indexes

VALUE LINE (KCBT)

NYSE COMP. INDEX (NYFE)

Commodity Indexes

	Close	Previous
Moody's	904.10 f	908.30 f
Reuters	1,508.70	1,507.80
D.J. Futures	N.A.	124.30
Com. Research	N.A.	209.62

Moody's : base 100 : Dec. 31, 1931.
p - preliminary; f - final
Reuters : base 100 : Sep. 18, 1931.
Dow Jones : base 100 : Dec. 31, 1974.

Currency Options

Bonn Says List of Firms To Be Sold Is Complete

Reuters

BERLIN — Finance Minister Gerhard Stoltenberg said Tuesday that he saw no immediate need for the sale to the public of more West German government-owned companies, beyond plans the government has announced for the next few years.

Mr. Stoltenberg, answering questions about the long-delayed partial sale of Lufthansa AG, said the government had already planned a series of share offers until 1988.

In addition to several smaller public sales, the government has said it intended to sell its interest of around 25 percent in VEBA AG, the energy and chemicals group; its 20-percent holding in Volkswagen AG, and 45 percent of its wholly owned Industrieverwaltungs GmbH, a holding company active in real estate and transport.

The government, which holds around 80 percent of Lufthansa, had hoped to sell a stake of 25 percent to private investors. But the sale has been blocked by the Bavarian premier, Franz Josef Strauss, whose Christian Social Union is a partner in the Bonn government.

NYSE Highs-Lows

NEW HIGHS

NEW LOWS

Paris Commodities

Sept. 16

Asian Commodities

Sept. 16

London Commodities

Sept. 16

London Metals

Sept. 16

Dividends

Sept. 16

S&P 100 Index Options

Sept. 16

U.S. Treasuries

Sept. 16

Cash Prices

Sept. 16

DM Futures Options

W. German Mark-125,000 marks, cents per mark

Sept. 16

Source: CME.

Manila Selling Stake in 30 Firms

Agence France-Presse

MANILA — The government-owned National Development Co. is divesting itself of $1.67 billion in stock in 30 companies, a Trade Ministry spokesman said Tuesday.

Among the companies up for sale are Philippine Associated Smelting and Refining Corp., which runs the Philippines' only copper smelter plant, and National Steel Corp.

A ministry spokesman said that most of the companies were doing well, but that some "are not really that good." Trade Minister Jose Concepcion had said Monday that 81 private groups had already asked to acquire the companies, which he described as financially sound.

BUSINESS ROUNDUP

Viacom Gets Buyout Bid Valued at $2.7 Billion

The Associated Press

NEW YORK — Viacom International Inc., a leading broadcasting and cable-television concern, said Tuesday that it has received a $2.7-billion buyout offer from a group led by management.

Viacom owns five TV stations and eight radio stations, operates cable-TV systems serving about 840,000 subscribers and owns two major cable-programming companies, Showtime-The Movie Channel and MTV Networks.

The company also distributes syndicated television programs, including reruns of "The Honeymooners," and it has acquired the worldwide distribution rights to the current NBC hit program "The Cosby Show."

Viacom said the bidders include Terrence A. Elkes, its president and chief executive, and other members of senior management; the investment firms Donaldson, Lufkin & Jenrette Securities Corp., First Boston Corp. and Drexel Burnham Lambert Inc.; and the insurance company Equitable Life Assurance Society of the United States.

In Tuesday trading on the New York Stock Exchange, Viacom shares closed up $5.125, to $40.375.

Viacom said the group would buy the company's 53.4 million common shares and equivalents for $37 cash and a fractional share of a preferred stock designed to have a market value of $3.50. The group would also refinance existing Viacom debt, which would lift the total value of the buyout to about $2.7 billion, Viacom said.

Viacom, founded in 1971 as a divested asset of CBS Inc., has been a frequent target of takeover speculation in recent months, culminating in May when Carl C. Icahn, the financier, bought 17 percent of the company. But Viacom defused that threat by repurchasing Mr. Icahn's shares in an agreement valued at more than $227 million.

Mellon to Take a Charge For Unauthorized Trading

The Associated Press

PITTSBURGH — Mellon Bank Corp. said it will take a charge of $7.7 million in the third quarter to reflect losses caused by unauthorized foreign-exchange trading by a dealer at its Tokyo branch.

Mellon Bank said Monday that the after-tax loss will cut third-quarter earnings by 28 cents per common share. In the first six months of 1986, the bank earned $115.3 million, or $4 a share.

"The bank has conducted a thorough investigation and has determined that the dealer had circumvented established controls which are considered to be adequate," Mellon Bank said in a statement. It refused to name the trader or say whether he was penalized/

It said that by doing so, the dealer "knowingly violated the bank's procedures and exchange-trading limits."

Progress Reported in Ford-Alfa Talks

The Associated Press

MILAN — Progress has been made in talks between Ford Motor Co. and Alfa Romeo SpA on Ford's proposed purchase of a big minority stake in the Italian automaker, officials said Tuesday.

Finmeccanica, the state holding company that is Alfa's parent, said the talks had made "satisfactory progress" and "a positive conclusion" may soon be reached.

The statement followed reports that the negotiations were deadlocked over who would pay debts of the Italian company. Alfa Romeo reported a loss of 245 billion lire (about $158 million) last year.

Fiat SpA has also held talks with Alfa Romeo.

VW Concludes Agreement to Buy Stake in Olivetti

Reuters

WOLFSBURG, West Germany — Volkswagen AG said Tuesday that it had formally concluded an agreement to purchase a 5-percent interest in Olivetti SpA for about 595 million Deutsche marks ($290 million).

VW also confirmed that the agreement involved the transfer of its 98.4-percent interest in the unprofitable office equipment subsidiary, Triumph-Adler AG, to Olivetti Holding BV of Amsterdam. The sum for Triumph-Adler has not been disclosed.

VW said the agreement gave it a seat on the Olivetti board, which will be filled by its deputy board chairman, Horst Münzner.

The 5-percent stake in Olivetti came from participation in the issue of Olivetti shares, valued at a nominal 1,000 lire (70 cents) and priced at 29.80 DM, agreed upon at the Olivetti general meeting on June 11. The transaction had been approved in April, and West Germany's Federal Cartel Office gave approval three months later.

Analysts have said that VW was making a good investment in exchange for a company that had cost VW about 1.5 billion DM since its acquisition in 1979. Triumph-Adler has said it expects to break even this year after cutting 1985 losses to less that 100 million DM from 384 million in 1984, but some analysts doubted it would ever be profitable as part of VW.

Analysts said Tuesday that speculation about the price has ranged from 500 million DM to "significantly below the price VW is paying for its stake in Olivetti."

COMPANY NOTES

Boeing Co. has signed a 10-year contract worth $500 million to buy wing parts from three Japanese suppliers: Fuji Heavy Industries, Mitsubishi Heavy Industries and Kawasaki Heavy Industries.

General Electric Credit Corp. said it intends to acquire 80 percent of the privately owned Polaris Aircraft Leasing Corp., one of the largest U.S. aircraft-leasing companies. The value of the transaction was not disclosed. Polaris manages a $768-million portfolio of commercial jets leased to 15 airlines.

Ideal Basic Industries Inc., a U.S. cement producer, has almost completed an agreement under which a unit of Holderbank Financiere Glarus AG of Switzerland would buy 67 percent of Ideal for $110 million. Ideal also said it had almost completed an agreement with lenders to restructure more than $300 million in debt.

Imperial Chemical Industries PLC declined comment on press and market speculation that it planned to merge the four divisions of its bulk commodity chemicals operations. Reports said the group would merge petrochemicals and plastics, fibers, fertilizers and general chemicals into one operation.

International Transport Group reported net income of 106.02 million Australian dollars ($65.5 million) in the year ended June 30, a 40-percent increase from 75.61 million in 1984-85. Revenue rose to 2.82 billion dollars.

IVG GmbH's partial denationalization will begin on Oct. 6 and close on Oct. 8, Finance Minister Gerhard Stoltenberg said. Trading in the shares, representing 45 percent of IVG's 110-million-Deutsche mark ($53.5-million) share capital, will begin Oct. 14.

Occidental Petroleum Corp. has acquired Laurel Run Mining Co. from Dominion Resources Inc. for $40 million in cash and $12 cumulative preferred stock redeemable at Occidental's option five years after issuance. Occidental said Laurel Run had reserves of about 50 million short tons (45 million metric tons) of recoverable coal.

Cie. de Saint-Gobain will be the first French company to be denationalized of the three named last week, Finance Minister Edouard Balladur said. The government also named Cie. Financière de Paribas and Assurances Générales de France as the first companies to be denationalized within five years.

Swiss Aluminum Ltd. said its U.S. subsidiary, Consolidated Aluminum Corp. of St. Louis, Missouri, and Revere Copper & Brass of Stamford, Connecticut, have sold their stakes in Ormet Corp. to Ohio River Associates.

AIRFARES: *Cheap Travel Is a Mission and a Business for Jacques Maillot*

(Continued from first finance page)

Mr. Maillot's close associate, Jean-Christian Pinot, the company's director of international relations. "Usually it is outside of their own territory, in Great Britain or in Europe. They are fighting against our discounting in their market but will do it themselves in another. What we have been asking is, why is a practice that is licit in one market illicit in another?"

Industry observers attribute Nouvelles Frontières' survival to its founder's personality: pragmatic, intelligent, noisy. His voice is loud and just this side of argumentative, even in polite conversation. Associates say he is feisty, charming, impatient and outspoken to the point of rudeness.

Over the years Mr. Maillot has proved himself to be a master maneuverer. And he has frequently violated French aviation rules by such devices as selling student discounts to 80-year-olds. But instead of keeping quiet, he has publicized his coups and flaunted his "crimes." "When we arrive with a new charter or discount or package, we do it of course in a loud and widespread way," Mr. Maillot said in a recent interview. "We speak in a loud voice."

That voice usually infuriates the government. For example, on the opening page of the company's 487-page summer-fall catalogue this year, he accused the French government of discrimination in its fare policy to black Africa. The fact that the fares "cannot benefit the Africans, who must then travel at higher prices," Mr. Maillot wrote, "can only be analyzed as a manifestation of institutional racism."

In the beginning, the company focused on rock-bottom fares. Officials kept overhead low by renting tiny offices and by charging customers an average of only 10 percent above costs — enough, Mr. Pinot says, to balance business necessity with missionary zeal. The fares they offered were remarkable by French standards: 2,200 francs round trip to New York, 1,750 francs to Istanbul and back.

But it soon became apparent that fares were only part of the problem. Air France and its government protectors decided which airlines would have landing rights at which French airports. Carriers like Minerve and the private Union des Transports Aériens were allowed to fly from Paris to less popular destinations, often in Africa, but Air France monopolized lucrative routes to the United States, the Caribbean and Europe.

The charters often had to fly from small French regional airports or from other countries, notably Belgium and Luxembourg, and often could not get landing privileges in French possessions popular with travelers, such as Tahiti.

It took the company until 1985 to crack the monopoly on air routes. In 1983, the Socialist government seemed to approve Nouvelles Frontières' request for more charter flights to Martinique and Guadeloupe, then reversed itself after five weeks, leaving thousands of tourists up in the air. The company paid a huge premium to Air France to take care of its clients.

Then the company sued Charles Fiterman, the transportation minister and a Communist, contending that France's civil-aviation code nowhere gave the government the authority to allocate landing rights. An administrative court ruled in the company's favor last year.

Now Mr. Maillot is pressing the government to compensate him for the money Nouvelles Frontières had to pay to Air France — about 3 million francs (about $448,000 at current rates) in damages.

The ruling by the European Court came about after the company had decided to challenge in 1984 the government's practice of searching its customers at airports to see if their fares were legal. Before then Nouvelles Frontières had been sued more than 100 times for illegal discounting.

Mr. Maillot and the company's self-named "politics of price" fought some of their hardest battles against the leftist government that gained power in 1981. (He renounced his membership in the Socialist Party that year.)

Even when Air France made attempts to catch up by offering special rates for students, young people and summer vacationers, it buttressed Nouvelles Frontières. "They always did these things too late," Mr. Pinot said, "and in such a way that made it clear that we had been right all along."

Air France officials take exception to such remarks. Many of the policies Nouvelles Frontières has attacked "were not because of Air France but because of government decisions," says Penton Spring, an Air France spokesman. "Now that the French government has decided to allow other carriers on the routes, we go along."

The tide turned for good with the April ruling and the March election of a conservative government. The conservatives promised some liberalization of French air regulations. Since then, the government has opened up Air France's monopoly to San Francisco, the Caribbean and Tahiti, and Nouvelles Frontières among others has jumped into the breach.

With the European Court decision, fares have also plunged in Europe, including on Air France. Nouvelles Frontières summer fares included Paris-London, 490 francs; Paris-Geneva at 690 francs, and Paris-Rome at 950 francs — all round trips and comparable to train fares.

Although Nouvelles Frontières continues to be run by the same five partners who gathered at Mr. Maillot's table 19 years ago, it has become part of the establishment; the company moved recently into a big new headquarters in a prosperous Paris neighborhood.

But its partners continue to relish a fight, and deregulation offers the chance for some real bruisers. The hardest times for the company may come under competition.

Both Mr. Maillot and Air France officials say that they are looking forward to the competition.

"Our major concern is for passengers," Mr. Spring says. "If passengers are happy with what they're getting from Nouvelles Frontières, that's well and good. But we will continue to offer our own quality and services."

Mr. Maillot says: "Competition will be good for us and for the consumers too. We welcome it."

Mr. Maillot does not worry that his company will end up like Laker Airways or People Express Inc., other crusaders for low fares. Sir Freddie Laker went bankrupt; People Express has had to agree to a buyout by Texas Air Corp. to save itself. Mr. Maillot says Sir Freddie "mixed up his business and tried to go from being an air charter to a scheduled air carrier. The success went to his head."

Tuesday's AMEX Closing

Tables include the nationwide prices up to the closing on Wall Street and do not reflect late trades elsewhere.
Via The Associated Press

Crédit Commercial Says It Plans Restructuring

Reuters

PARIS — Crédit Commercial de France, a French government-owned bank that is on the list of 65 groups due to be denationalized by 1991, has announced a major administrative reorganization, a bank spokeswoman said Tuesday.

The reorganization will split the bank's activities into two services, one handling banking and the other financial activities. The main object of the reform "is to enable the bank to respond in the best conditions to changes that will occur in the banking and financial sector, in the interests of its clients," the bank said.

The abolition of currency-exchange controls in France by the end of this year, as well as longer-term moves toward more developed European markets, will increase the international role of French banks, CCF said. To respond to these needs, "CCF has decided to give up the traditional organization of French banks, which generally isolate activities concerning foreign countries and international markets in specific departments."

Cie. Financière Paribas is first on the list of financial institutions to be denationalized. No timetable has been published for other banks and finance houses.

AMEX Highs-Lows

NEW HIGHS

NEW LOWS

Floating-Rate Notes

Sept. 16

Dollars

Pounds Sterling

Deutsche Marks

E.C.U.

Japanese Yen

Source: Credit Suisse-First Boston Ltd. London

Tuesday's OTC Prices

NASDAQ prices as of 3 p.m. New York time.
Via The Associated Press

CURRENCY MARKETS

Dollar Finishes Higher in New York

Compiled by Our Staff From Dispatches

NEW YORK — The dollar ended higher in U.S. trading Tuesday after a mixed, but generally higher, showing in Europe.

Dealers said the U.S. currency came under pressure early in the session because of rumors — later denied — that BankAmerica Corp. was seeking a bailout from the Federal Reserve.

But the dollar rose again, mostly helped along by a lower oil price-related weakness in the pound that sparked an unwinding of large sterling positions taken last week.

"From a technical point of view, the dollar appears to be feeling its way towards higher levels," one dealer said.

In New York, the dollar rose to 2.0535 Deutsche marks from 2.0480 on Monday, to 1.6610 Swiss francs from 1.6523; to 6.7240 French francs from 6.6990, and to 156.45 yen from 155.

The pound also slipped, to $1.4685 from $1.4840.

Traders said the dollar's outlook remains unclear. They were split between long-term bearish sentiment, based on the belief that the Reagan administration wants the dollar still lower to reduce the trade deficit, and the belief that U.S. interest rates may have bottomed out now that weak signs have emerged of a pickup in U.S. economic growth.

Overnight in Tokyo, the dollar fell to 155.40 yen from 156.20 on Friday. Markets in Japan were closed Monday for a holiday.

Dealers said much of the day's stimulus derived from midsession rumors that the Federal Reserve Board was about to announce a rescue of troubled BankAmerica Corp. by Citicorp.

The rumors knocked about a pfennig off the value of the dollar before BankAmerica, the holding company for the second-biggest U.S. bank, issued a strong denial, and the dollar recovered.

Because the market focused on these rumors, the release of the industrial production numbers had no immediate impact, dealers said.

The Fed said industrial production inched up by 0.1 percent in August as a 0.3-percent gain in manufacturing output was offset by steep declines in the mining and utilities industries.

Some dealers saw the figures as positive and said they should keep the dollar stable.

One trader said that revised production figures for May, June and July were significant. The data had previously shown three consecutive monthly declines, suggesting a bearish trend, but were revised to show two monthly increases and one flat month.

Other U.S. figures due out this week include August housing starts on Wednesday, the second revision of second-quarter gross national product on Thursday and July personal income on Friday.

In other European trading, the dollar was fixed at 2.0525 DM in Frankfurt, up from 2.046 on Wednesday, and at 6.712 French francs in Paris, up from 6.6955. In Zurich it slipped to 1.655 Swiss francs from 1.6552 on Wednesday.

(Reuters, UPI)

London Dollar Rates

Closing	Tue.	Mon.
Deutsche mark	2.0492	2.0515
Pound sterling	1.4730	1.4815
Japanese yen	156.25	155.85
Swiss franc	1.6570	1.6544
French franc	6.7125	6.7101

Source: Reuters

Unemployment Rises in France

Reuters

PARIS — The unemployment rate in France rose to a provisional 10.7 percent of the work force in August from 10.6 percent in July, the national statistics institute said Tuesday.

The institute said the rate had been 10.3 percent in August 1985.

Last month, the Labor Ministry said unemployment had hit a postwar, seasonally adjusted high of 2.47 million people in July.

THE EUROMARKETS

Floater Issues of North American Banks Trade Nervously

By Christopher Pizzey
Reuters

LONDON — Floating-rate-note issues for North American banks traded nervously Tuesday as rumors — later strongly denied — circulated that BankAmerica Corp. was in difficulty and it would be seeking assistance from the Federal Reserve Board.

In the broader market, the U.S. dollar sector Tuesday generally ended showing few changes from Monday's closing levels as volume remained low ahead of the Tuesday night announcement of the size of next week's U.S. Treasury mini-refunding auctions.

With the primary market moribund, attention focused on special situations in the secondary market, they added. By the end of usual trading, only two new issues had been launched, a 400-million-French-franc bond for Eurofima and a further high-coupon yen bond, this time for Finland's Postipankki.

A BankAmerica spokesman said the rumors about its alleged problems were "preposterous, irresponsible and absolutely groundless in fact." Dealers noted that floating-rate notes for BankAmerica and its subsidiaries are not widely traded.

A trader at a European bank said that as the rumors circulated, some issues for other banks did dip slightly, "but BankAmerica's denial saw them come back to end little changed."

Other floating-rate-note issues ended unchanged to a fraction firmer, with a trader commenting: "Last week's fun and games seem to have driven everyone away from our market." He was referring to the crash in world stock and bond markets late last week, led by the collapse in Wall Street stock and bond prices Thursday.

The record $4-billion floating-rate-note issue for the United Kingdom held steady at 99.57 throughout the day, while the recent perpetual issue for Banque Nationale de Paris edged up a shade on the bid side to be quoted at about 100.21.

Dollar-straight issues ended unchanged to ¼ point easier as prices gave up initial gains of ⅛ point, dealers said. They added that prices moved down after a lower opening in New York that followed news of a revision in July industrial production.

The Federal Reserve Board said that industrial production rose 0.3 percent in July, instead of the previously reported decline of 0.1 percent. The June figure was revised to unchanged from the previous drop of 0.3 percent.

Dealers said that seemed to indicate that the U.S. economy was perhaps a little stronger than had previously been thought. "They (the figures) weren't a disaster, but it was obviously a way to mark down prices after they came out," a dealer at a U.S. securities house said.

Sterling-straight bonds were lower following news of a higher than expected public-sector borrowing requirement figure.

In the primary market, Eurofima's 400-million-franc bond pays 7⅛ percent over eight years and was priced at par. It was lead-managed by Société Générale and was offered on the market outside the total fees of 1⅞ percent at a discount of 2.

Postipankki's 10-billion-yen bond has a price of 117⅛ and pays 8½ percent over six years. It was lead-managed by IBJ International.

A floating-rate-note issue for Banco Internacional S.N.C. was increased to $188.1 million from the initial $50 million after being oversubscribed. The issue represents the second refinancing and securitization exercise undertaken by the bank.

BUSINESS PEOPLE

Gray Resigning as United Technologies Chairman

By Arthur Higbee
International Herald Tribune

Harry J. Gray, widely feared for his bold takeover tactics at United Technologies Corp., has announced that he will step down as chairman on Dec. 31.

He will be succeeded by Robert F. Daniell, 53, who will continue as president and chief executive, posts he assumed last Jan. 1. Mr. Gray, 66, will remain as a director and chairman of the finance committee, the company said Monday.

Because Mr. Gray traveled regularly by helicopter, The New York Times recounts, executives fearing a takeover often joked, a bit nervously, that they could hear the whirring blades overhead. His last big merger battle was an unsuccessful 1982 bid for Bendix Corp.

In 1971, Mr. Gray quit Litton Industries as senior executive vice president to become president and chief administrative officer of what was then United Aircraft Corp. It made Pratt & Whitney aircraft engines, Hamilton propellers and Sikorsky helicopters. Sales were $2 billion a year. Under Mr. Gray, sales climbed to more than $16 billion last year.

Within four years, he had changed the company's name to United Technologies and invaded other high-technology areas, almost always with highly publicized, hostile takeover battles. His acquisitions included Essex Wire & Cable Co., Otis Elevator Co. and Carrier Corp., the air-conditioner manufacturer.

Mr. Gray was widely believed responsible for the departure of at least two executives who had hoped to succeed him. Edward L. Hennessy Jr. left to run Allied Corp. When Robert J. Carlson resigned, he told the board that Mr. Gray had electronically bugged his home and office. Mr. Hennessy is understood to have had similar suspicions. But two years ago United's independent directors cleared Mr. Gray after an investigation.

Georgia-born, Mr. Gray is a graduate of the University of Illinois and a combat veteran of World War II.

Morgan Grenfell Group PLC of London has hired five former Chase Manhattan Corp. executives, including Robert E. Kern Jr. He will become an executive vice president and director of Morgan Grenfell Capital Management Inc. in New York. The other four executives, Gerald S. Frey, Deborah Jennings, Audrey M.T. Jones and James T. Morton, will all be vice presidents. All had been with Chase's equity fund group, where Mr. Kern, 50, had been managing director. Morgan Grenfell has long made investments abroad for U.S. pension funds. It appointed Rick Walton as president of Capital Management Inc. a year ago to seek investments in large-capitalization areas in the United States; Mr. Kern and his team will specialize in U.S. growth companies capitalized at less than $500 million.

Chase Manhattan Corp. announced, in turn, that Thomas D. Henwood has been named managing director of its Special Equity Fund, the post vacated by Mr. Kern. Chase said Mr. Henwood had been Mr. Kern's "right-hand man." Before joining Chase in January 1985, Mr. Henwood was a research director with First Boston.

Yamaichi International (Europe) Ltd., which is seeking a banking license in the United Kingdom, has named Peter Bulfield as executive director with a view to making him chief executive of the bank once the license is granted. Yamaichi International is a subsidiary of Yamaichi Securities Co. of Tokyo. Mr. Bulfield, 56, a Scottish chartered accountant, was formerly a director of J. Henry Schroder Wagg & Co., merchant bankers.

The Chicago Board of Trade says it will open a European representative office in London in November to be headed by Peter Donnelly, vice-president for European operations. A board official said a similar office may be opened in Tokyo next year.

Unilever, the Anglo-Dutch consumer products group, has named its treasurer, Niall Fitzgerald, to succeed Anthony (Cob) Stenham as finance director. Bankers Trust Co. announced last month that Mr. Stenham had been hired as its executive chairman for Europe, the Middle East and Africa.

TRADE: *Record U.S. Deficit*

(Continued from first finance page)

now own more in U.S. investments than Americans own overseas, the country still enjoys a slight surplus in this category because, analysts said, the rate of return on many older U.S. investments is higher than foreigners have been receiving in the United States.

(AP, Reuters, UPI)

■ Industry Output Up 0.1%

U.S. industrial production inched up by 0.1 percent in August as a 0.3-percent gain in manufacturing output was offset by declines of 1.5 percent in utilities and 1.4 percent in mining, the Federal Reserve Board said Tuesday, according to a United Press International dispatch from Washington.

Estimates compiled by Fed analysts put the industrial production index at 124.8 in August on a scale that began at 100 in 1977.

Output of U.S. factories, mines and utilities rose 0.3 percent in July to 124.6, according to revised data. An early report last month had placed the July production index at 124.1, 0.1 percent below the June level. Revised data showed that the index remained unchanged in June following a 0.4-percent decline in May. It has advanced by a sluggish 0.3 percent overall since August 1985.

BankAmerica Plans to Close Copenhagen Branch by 1987

The Associated Press

NEW YORK — BankAmerica Corp. plans to close its Copenhagen branch by early 1987, shifting the operation to its London-based Nordic group, the banking company said Tuesday.

A spokesman for the San Francisco-based company, the second-largest U.S. bank holding company after Citicorp, said the decision to close the branch was part of BankAmerica's strategy of lending more to governments and multinational companies than to midsize businesses.

The Copenhagen branch had been involved in corporate banking and lending to midsize Danish companies and Denmark branches of multinational corporations. Those operations will be transferred to the Nordic group, which serves customers in Norway, Sweden and Finland, said a spokesman, Rick Goulart.

Last week, news reports indicated that BankAmerica was willing to consider purchase offers for its Italian bank subsidiary, Banca d'America e d'Italia, as part of the same strategy. BankAmerica never confirmed the reports.

Sources were quoted in the reports as saying that the sale of the profitable Italian unit would help raise cash for BankAmerica, which posted losses of $577 million in the first six months of 1986.

The company has sold a number of assets in the past several years to raise capital.

On Tuesday, the company formally sold its 50-percent interest in its downtown Los Angeles headquarters to Shuwa Investments Corp., a Japanese commercial real estate developer.

BankAmerica has said it expects a $70 million after-tax gain from the sale in the third quarter.

Speculation that BankAmerica, the parent of Bank of America, would seek a bailout from the U.S. Federal Reserve circulated Tuesday in financial markets in Europe and the United States. BankAmerica quickly denied the rumors, terming them "irresponsible and groundless."

Output Rises in Switzerland

Reuters

BERN — Industrial production in Switzerland rose 11 percent in the second quarter of 1986, compared with a 12-percent drop in the first quarter and a 7-percent increase in second quarter of 1985, the Federal Office of Industry, Trade and Labor said Monday.

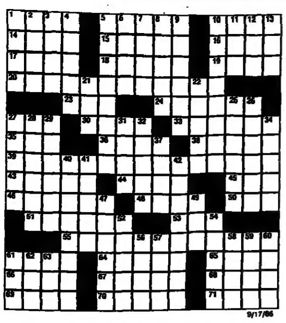
Tuesday's OTC Prices

NASDAQ prices as of 3 p.m. New York time.
Via The Associated Press

12 Month High	12 Month Low	Stock	Div.	Yld.	Sales in 100s	High	Low	3 P.M.	Net Ch'ge
[illegible]									

Sales figures are unofficial. Yearly highs and lows reflect the previous 52 weeks plus the current week, but not the latest trading day. Where a split or stock dividend amounting to 25 percent or more has been paid, the year's high-low range and dividend are shown for the new stock only. Unless otherwise noted, rates of dividends are annual disbursements based on the latest declaration.

a — dividend also extra(s). b — annual rate of dividend plus stock dividend. c — liquidating dividend. cld — called. d — new yearly low. e — dividend declared or paid in preceding 12 months. g — dividend in Canadian funds, subject to 15% non-residence tax. i — dividend declared after split-up or stock dividend. j — dividend paid this year, omitted, deferred, or no action taken at latest dividend meeting. k — dividend declared or paid this year, an accumulative issue with dividends in arrears. n — new issue in the past 52 weeks. The high-low range begins with the start of trading. nd — next day delivery. P/E — price-earnings ratio. r — dividend declared or paid in preceding 12 months, plus stock dividend. s — stock split. Dividend begins with date of split. sls — sales. t — dividend paid in stock in preceding 12 months, estimated cash value on ex-dividend or ex-distribution date. u — new yearly high. v — trading halted. vi — in bankruptcy or receivership or being reorganized under the Bankruptcy Act, or securities assumed by such companies. wd — when distributed. wi — when issued. ww — with warrants. x — ex-dividend or ex-rights. xdis — ex-distribution. xw — without warrants. y — ex-dividend and sales in full. yld — yield. z — sales in full.



9/17/86

ACROSS

1 Diplomat's forte
5 Cordage fiber
10 Equipment
14 Khayyám
15 Me. town
16 Like a fabled duckling
17 Indian princess
18 Put on cargo
19 A gait
20 U.S. film debut of 39 Across
23 Break bread
24 —— advocate
27 Fleur-de- ——
30 Chanteuse Edith
33 A "Stagecoach" star: 1939
35 Before, to Byron
36 Straw in the wind
38 Pay up
39 Star of 20 Across
43 "It's ——!"
44 Invalid
45 Ring initials
46 Busybodies
48 Undress
50 Draft agcy.
51 Stew
53 Limo occupant
55 Role for 39 Across
61 This may come to shove
64 Attack
65 Mars, to 54 Down
66 Exchange rate
67 Poetry Muse
68 Bag opener
69 Hot-day word
70 Hinder
71 —— about (approximately)

DOWN

1 Legal wrong
2 Oriental nurse
3 Walking aid
4 Levites, e.g.
5 Holmes's aim
6 Dies ——
7 Kind of jerk or pop
8 Put —— to (finish off)
9 Stayed at an inn
10 Traveler to Lilliput
11 Type of trip
12 Swiss peak
13 Manhattan part
21 Track distance
22 Turn inside out
25 Restrains
26 Shaving mishaps
27 Air Force general Curtis
28 Sultans' decrees
29 Placid
31 Sanction
32 Surfeited
34 Group character
37 What the Aswan dams
40 Wee-hour movie
41 Gulf of Aqaba port
42 Londoner's lift
47 Split the take
49 Number of cards in Caesar's deck?
52 Harden
54 "The Republic" author
56 Flying pest
57 Love's antithesis
58 Item to pump
59 Apollo's mother
60 North Sea feeder
61 Clumsy hand
62 Expression of disgust
63 "Sprechen —— Deutsch?"

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DENNIS THE MENACE

JUMBLE.

THAT SCRAMBLED WORD GAME by Henri Arnold and Bob Lee

Unscramble these four Jumbles, one letter to each square, to form four ordinary words.

CAFTE

THAIB

DEPENX

REVOND

Now arrange the circled letters to form the surprise answer, as suggested by the above cartoon.

Print answer here: A ○○○○○○○

(Answers tomorrow)

Yesterday's | Jumbles: GRAIN DADDY BUOYED MULISH
Answer: Why the crook disguised himself as a shepherd—HE WAS ON THE "LAMB"

WEATHER

EUROPE

	HIGH C	HIGH F	LOW C	LOW F	
Algarve	25	77	22	72	fr
Amsterdam	14	57	4	43	cl
Athens	35	95	25	77	fr
Barcelona	27	81	18	64	cl
Belgrade	33	91	16	61	fr
Berlin	14	57	8	46	o
Brussels	12	54	7	45	o

ASIA

	HIGH C	HIGH F	LOW C	LOW F	
Bangkok	33	91	25	77	cl
Beijing	23	73	15	59	fr
Hong Kong	30	86	25	77	st
Manila	31	88	25	77	o
New Delhi	36	97	24	75	fr
Seoul	26	79	16	61	o

AFRICA

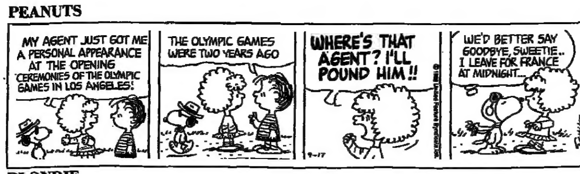
LATIN AMERICA

NORTH AMERICA

MIDDLE EAST

OCEANIA

PEANUTS



BLONDIE

BEETLE BAILEY

ANDY CAPP

WIZARD of ID

REX MORGAN

GARFIELD

BOOKS

STRENGTH FOR THE FIGHT: A History of Black Americans in the Military

By Bernard C. Nalty. 424 pages. $22.50. The Free Press, 866 Third Avenue, New York, N. Y. 10022.

Reviewed by Drew Middleton

THIS is a success story — a success achieved largely by blacks aided by far-sighted whites, men like John J. McCloy, General James H. Doolittle, Admiral Elmo R. Zumwalt and General Matthew B. Ridgway. The story also mirrors the long struggle of blacks in the military to achieve equality, which basically means a readiness to fight and die on the same terms as white warriors.

Black participation in the military, as Bernard C. Nalty emphasizes in this even-handed, well-documented book, did not begin with the volunteer army or even the Vietnam War. There were blacks in Washington's ragged armies and aboard the warships and privateers that bedeviled the British in the War of 1812.

Blacks' struggle to win a role in the military moved by fits and starts, mirroring their struggle to win equality in American life. The Civil War produced black units on the Union side and the wars on the Great Plains saw four black regiments, two of infantry and two of cavalry, fighting Indians. The cavalry regiments figured conspicuously in the campaign in Cuba in the war with Spain.

Yet black soldiers suffered from the Jim Crow laws and customs that prevailed in many states. As late as World War I, a black general confided to a white friend that he could eat at only one restaurant in white Washington. Black soldiers suffered, too, from ingrained white attitudes.

The navy was the most serious offender. Although some blacks served valorously in the Civil War and the Spanish War, the navy resisted their enlistment except as servants or in shore establishments. World War I changed little. Black units of the army, some serving with the French, did well. But there was an antipathy among general and flag officers toward blacks as soldiers or sailors, and that antipathy lingered for 50 years.

World War II marked the start of the change. The cold, sharp brain of John J. McCloy, assistant secretary of war, discerned, in Nalty's words, that "the Army had to make use of America's black citizens . . . a potential military asset. The opportunity to serve overseas, he was convinced, would create a sense of purpose among blacks, raising the morale of servicemen and civilians." Doolittle, then a lieutenant general, went further. He suggested the abolition of segregation in the air force.

The forces were segregated in Korea, desegregated in Vietnam. In Korea, one black unit behaved badly. In Vietnam, black troops, now desegregated, fought well and took a high percentage of casualties. In both wars, there were black-white incidents behind the lines.

Desegregation of the military was followed by the institution of all-volunteer services in which blacks play a significant role. Yearly that role has become more accepted by white commanders, and, significantly, the number of black officers has risen.

Drew Middleton is on the staff of The New York Times.

Solution to Previous Puzzle

LAND CHAD USER
IDEE CLIME NOME
DEAR HERAT LAIN
ONTOPOFTHEWORLD
GUST RIA
PALACE WORLDWAR
ALATE HAWED OMA
SIDE FAKED SMUG
EEL PORED PHASE
ONEWORLD COINED
IRE SHOP
THINKTHEWORLDOF
HAND ESTOP OUSE
URGE LIARS ANTA
DIED LASE DEER

9/17/86

BEST SELLERS

The New York Times

This list is based on reports from more than 2,000 bookstores throughout the United States. Weeks on list are not necessarily consecutive.

FICTION

This Week		Last Week	Weeks on List
1	IT, by Stephen King		1
2	RED STORM RISING, by Tom Clancy	1	7
3	WANDERLUST, by Danielle Steel	2	9
4	A MATTER OF HONOR, by Jeffrey Archer	3	11
5	LAST OF THE BREED, by Louis L'Amour	5	14
6	REGRETS ONLY, by Sally Quinn	4	4
7	THE BOURNE SUPREMACY, by Robert Ludlum	6	27
8	THROUGH A GLASS DARKLY, by Karleen Koen	12	2
9	ACT OF WILL, by Barbara Taylor Bradford	10	13
10	THE GOOD MOTHER, by Sue Miller	11	18
11	THE GARDEN OF EDEN, by Ernest Hemingway	9	16
12	SUSPECTS, by William J. Caunitz	8	5
13	I'LL TAKE MANHATTAN, by Judith Krantz	7	21
14	THE MAMMOTH HUNTERS, by Jean M. Auel	13	43
15	A PERFECT SPY, by John Le Carré	14	21

NONFICTION

This Week		Last Week	Weeks on List
1	FATHERHOOD, by Bill Cosby	1	19
2	YOU'RE ONLY OLD ONCE! by Dr. Seuss	2	27
3	JAMES HERRIOT'S DOG STORIES, by James Herriot	4	18
4	"AND SO IT GOES," by Linda Ellerbee	3	14
5	NECESSARY LOSSES, by Judith Viorst	5	21
6	ROCK HUDSON: His Story, by Rock Hudson and Sara Davidson	6	12
7	FORD: The Men and the Machine, by Robert Lacey	7	13
8	A CAST OF KILLERS, by Sidney D. Kirkpatrick	8	4
9	THE MAN WHO MISTOOK HIS WIFE FOR A HAT, by Oliver Sacks	10	24
10	MURROW: His Life and Times, by A. M. Sperber	11	9
11	WHEN ALL YOU'VE EVER WANTED ISN'T ENOUGH, by Harold S. Kushner	9	22
12	THE NIGHT LIVES ON, by Walter Lord	13	2
13	THE PASSION OF AYN RAND, by Barbara Branden		4
14	STRANGER IN TWO WORLDS, by Jean Harris	14	2
15	A LIGHT IN THE ATTIC, by Shel Silverstein	12	174

ADVICE, HOW-TO AND MISCELLANEOUS

This Week		Last Week	Weeks on List
1	THE ROTATION DIET, by Martin Katahn	1	17
2	FIT FOR LIFE, by Harvey Diamond and Marilyn Diamond	2	56
3	WEBSTER'S NINTH NEW COLLEGIATE DICTIONARY (Merriam-Webster)	3	64
4	MEDICAL MAKEOVER, by Robert M. Giller and Kathy Matthews	5	9
5	CALLANETICS, by Callan Pinckney with Sallie Batson	4	42

BRIDGE

By Alan Truscott

ON the diagramed deal North opened with a weak two-bid. South probed with two no-trump, and after a discouraging three-heart rebid settled in five clubs.

A trump lead would have been devastating, leaving the declarer two tricks short. But that would have required a considerable inspiration, and West made the normal lead of the spade ten.

South won with the ace and led a low diamond, threatening to take at least one ruff in that suit. East won with the ten, and the moment of truth had arrived. Passive defense, by persevering with spades, allows South to make his contract by using both dummy's trumps for diamond ruffs. A low trump return also fails, for South can play low, win with the jack and ruff out the heart ace. He can then maneuver a diamond on a heart winner to make the game.

East spotted then winning defense: lead the club queen, which stops one of the diamond ruffs without allowing a quick entry to the dummy.

NORTH(D)
♠ J 7 2
♥ K Q J 9 7 2
♦ 7 4
♣ J 3

WEST
♠ 10 9 8 5 4
♥ 8 6 3
♦ J 9 3
♣ 6 2

EAST
♠ K Q 6
♥ A 10 5 4
♦ K Q 10 6
♣ Q 5

SOUTH
♠ A 3
♥ —
♦ A 8 5 2
♣ A K 10 9 8 7 4

Neither side was vulnerable. The bidding:

North	East	South	West
2 ♥	Pass	2 N.T.	Pass
3 ♥	Pass	5 ♣	Pass
Pass	Pass		

West led the spade ten.

World Stock Markets

Via Agence France-Presse Sept. 16

Closing prices in local currencies unless otherwise indicated.

Amsterdam | **Brussels** | **Frankfurt** | **London** | **Hong Kong** | **Johannesburg** | **Milan** | **Paris** | **Singapore** | **Stockholm** | **Sydney** | **Tokyo** | **Zurich**

Montreal *Sept. 15*

Canadian stocks via AP

Total Sales 3,437,716 shares.

	Close	Previous
Industrials Index:	1,279.48	1,279.17

To Our Readers

Toronto stock market quotations were not available in this edition because of technical problems.

RIEFS

Drug Tests

rican Mine Fire

ish Formal Ties

Vahit Halefoglu

acking Inquiry

embly Begins

Iran Terminal

Africa Visit Seen

Bannings in U.S.

SPORTS

Cardinals Keep Mets' Champagne on Ice

New York, on Bases-Loaded Walk in 13th Inning, Loses Fourth Straight Game

Compiled by Our Staff From Dispatches

ST. LOUIS — Champagne, like the collective ego of the New York Mets, can be bruised.

As long as the Mets delay clinching the National League East division title, they'd best be careful transporting the six cases of extra-dry champagne they've flown from New York to Philadelphia and now to St. Louis.

BASEBALL ROUNDUP

The Mets dropped their fourth straight away from home and sixth in seven games here Monday night when the St. Louis Cardinals held on for a 1-0 triumph in 13 innings. That loss coupled with second-place Philadelphia's victory over Pittsburgh kept New York's magic number for clinching the National League East at two.

New York could have clinched with a single victory in three weekend games at Philadelphia. Instead, they lost three in a row to keep.

"We're not a bad ballclub because we lost four games in a row," said Roger McDowell, who walked in pinch hitter Curt Ford with the bases loaded in the 13th. "We're 20 [actually 18] games ahead. We're as good as we think we are."

Willie McGee who celebrated with the Cardinals when they won the divisional title over New York last year, offered some advice: "They go home after this [Tuesday night's game] — let them clinch at Shea Stadium. It's much better to do it at home than on the road."

New York was shut out for a second consecutive game — for the first time in five years. The Mets have not scored in 23 straight innings, and their losing streak matches their longest this year.

The title will come; of immediate concern to the Mets is their skid. "It had to happen sooner or later, so why not now?" said center fielder Mookie Wilson. "We'll clinch it. I think we could even if I had to pitch one of the games. It's just a matter of time. We've just got to be patient."

"The key is to turn this around, not just win one game," said infielder Ray Knight. "We need to get a winning streak going into the playoffs."

McGee drew a leadoff walk in the 13th and was sacrificed to second by Andy Van Slyke. McGee moved to third on an infield single by John Morris and Terry Pendleton walked on four pitches to load the bases. Ford, batting for winning reliever Todd Worrell, ran the count to 3-2 before taking a pitch well inside.

Each team lost several scoring chances (the Mets hit into three double plays, the Cardinals into two).

New York starter Ron Darling allowed only two hits after the second inning and checked the Cards on four hits through nine innings. He struck out seven and walked four.

Phillies 5, Pirates 0: In Philadelphia, John Russell drove in four runs with a double and triple, in support of Don Carman's first major-league shutout as the Phillies won their fourth in a row. Mike Schmidt hit his 36th home run of the year, tops in the majors; it was No. 494 lifetime, moving Schmidt past Lou Gehrig into 14th place on the all-time list.

Cubs 7, Expos 3: In Montreal, Chico Walker went 4 for 5, scored twice and drove in a run, and Rafael Palmeiro hit a two-run double to pace Chicago.

Yankees 5, Orioles 3: In the American League, in New York, Don Mattingly hit a three-run seventh-inning homer that put the Yankees past Baltimore.

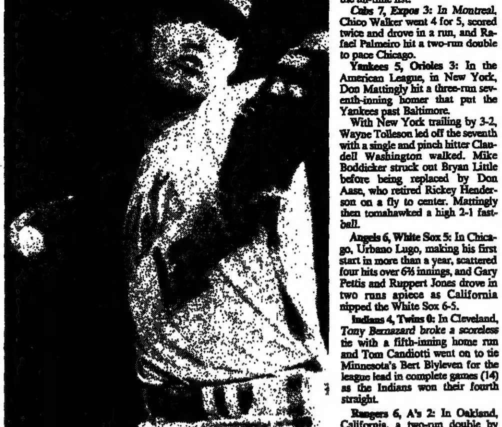
With New York trailing by 3-2, Wayne Tolleson led off the seventh with a single and pinch hitter Claudell Washington walked. Mike Boddicker struck out Bryan Little before being replaced by Don Aase, who retired Rickey Henderson on a fly to center. Mattingly then tomahawked a high 2-1 fastball.

Angels 6, White Sox 5: In Chicago, Urbano Lugo, making his first start in more than a year, scattered four hits over 6⅓ innings, and Gary Pettis and Ruppert Jones drove in two runs apiece as California nipped the White Sox 6-5.

Indians 4, Twins 0: In Cleveland, Tony Bernazard broke a scoreless tie with a fifth-inning home run and Tom Candiotti went on to tie Minnesota's Bert Blyleven for the league lead in complete games (14) as the Indians won their fourth straight.

Rangers 6, A's 2: In Oakland, California, a two-run double by Pete O'Brien triggered a four-run third that paced Texas past the A's.

Blue Jays 5, Brewers 2: In Milwaukee, Willie Upshaw had three hits, including a three-run homer, to spark Toronto. In the three-game series, Upshaw was 6 for 11 (.545) with two home runs and five RBIs. *(UPI, AP)*



John Swart/The Associated Press

Pitcher Ron Darling: Nine shutout innings weren't enough.

AP

Amor... Haslam's discoveries: Argentine Ricardo Villa, black-bearded and broody — macho, with a hint of grace.

A Good Man's Candescent Spirit

International Herald Tribune

LONDON — How can we love soccer still?

Only the blind cannot see its emphasis on the wealthy putting the boot into the weak, the establishment rotted by parasites, the playground too stereotyped and too inviting to hooligans.

Yet millions continue to be bewitched by the game, its ideal, from cradle to grave. Even in England, which started the ball rolling but now alas leads the decline, the love endures.

We shall on Thursday bury Harry Haslam, one of the old school whose links as player, coach, manager, scout, odd-job man and enthusiast have been among the most underestimated anywhere on earth.

The world was football to Haslam. To him, Argentines and Englishmen were not enemies who fought to kill over a small island but a melting pot where soccer players could learn and laugh together.

He proved it by instigating the transfers of three Argentine internationals — Ricardo Villa, Osvaldo Ardiles and Alex Sabella — to English clubs. He once had in the palm of his hand the greatest of them all, Diego Maradona.

But Haslam was not about the past alone. Right up to his premature death, at 64 of cancer, he had a special eye for talent in embryo.

He would have loved Hung Quoc Dang, the Vietnamese boat boy whose astonishing command of a soccer ball, far in excess of his English, was being sought by clubs up and down the land.

A couple of weeks ago, as Haslam's hold on life began to expire, Hung signed on his 14th birthday to join Tottenham Hotspur. As Haslam is laid to rest this week, the boy begins a two-year scholarship at the English FA School of Excellence.

Even in England's low soccer hour regeneration takes place, spurred by the sense of fulfillment between man or boy and ball. Hung Quoc Dang, a shy little schoolboy, becomes with that ball the embodiment of skilled enjoyment for which Haslam fought all manner of personal crusades.

Knowing the man's priorities, he would fall down laughing at the sight of an undersized Vietnamese kid who probably couldn't understand the technical jargon stifling soccer but can run rings around his tutors in the field.

He had seen such instinctive ability before. He traveled to where it grew in the wild — where more insular British managers fear to tread — and *he brought some of it home.*

Back in 1978, Haslam, as general manager, exchanged one shoestring English club, Luton Town, for another, Sheffield United. He took with him Danny Bergara, a Uruguayan, as coach, and Oscar Arce, an Argentine, as youth-team coach.

ROB HUGHES

Arce had tried, and failed, to tempt other English managers to see the talent available at relatively modest fees in the bankrupt Buenos Aires market. But Haslam went, as a guest of Antonio Rattin, the 1966 Argentine captain-turned-entrepreneur, to watch a dozen league games.

Haslam was jolly, but no soccer swagman. "Money talks," he used to say; "we're speechless." He was generous in passing on what he could not afford.

On his recommendation, Tottenham imported Ardiles and Villa for a total of £700,000 (about $1,035,000). Ardiles, at 34, is still there, and when he can rise above injuries, still the astute little general outthinking English midfields.

The swarthy, broody, black-bearded Villa, popular in Britain even during the Falklands conflict, has returned home but leaves a vibrant memory of possibly the most inspired solo goal ever to win a Wembley Cup final.

Villa personified what Haslam sought in an entertainer — macho with a hint of grace, the quiet man whose image came through loud.

Sabella, the £80,000 purchase Haslam's club *could* afford, was sold for profit and never blossomed with Leeds United.

But Haslam was haunted by the one that got away, a boy too young and at a price too high. Haslam had seen, in a sparse Buenos Aires stadium, a tiny bull of a player. He remembered every flick, every twist of the boy wearing No. 10.

Maradona and Haslam had no common language, yet the youngster, barely 17, was as ready to trust him as the Englishman was ready to pay — if he'd had it — the "exorbitant" 400,000 asking price.

Haslam greeted Maradona, and all of us, with a friendly eye that could dissolve cynicism at 20 paces.

He had in sepia days played fullback for Manchester United and for various other English clubs. He had also served an apprenticeship as a bricklayer and 16 years in the backwaters of small-time British clubs sustained more on love of the game than money.

He learned to make players, rather than to just buy them. Malcolm Macdonald was a struggling fullback in part-time soccer until Haslam motivated him into a swashbuckling old-style center forward, the idol of Newcastle and, briefly, an international goal-scorer.

Yet Haslam was somehow wedded to debt. He took no fortune out of the game, but extracted joy galvanizing a town like Luton to save its destitute club.

Rare among Englishmen, he entertained; he smiled while all around lost their heads in despair.

His nerves were probably too often soothed by a cigarette, yet his telephone was ceaselessly an instrument of sound advice, of good yarns, of consolation to men whose earning power and image he never matched.

Haslam in form was a Palladium act. My fondest memory of him is the silver-haired man sitting behind a sign "SILENCE! Thinking Boss" and trying to cajole a laugh from one of England's most successful but gloomiest club managers.

"Hey," said Haslam, in his Manchester vowels. "Did you hear we've signed a dog as mascot? Clever animal. If we score, he claps. If we miss, he wags his tail. And if the other lot score he somersaults.

"How many times? Depends how hard I kick him."

Silence on the other end of the phone, but Haslam's eyes streamed with tears at his own joke. If they play the game where he's going, there are hundreds more stories he can tell at halftime.

Soccer is poorer without his values, among them keeping ego within bounds and putting no boundaries whatever on fun.

Why There Aren't More Blacks on the Tennis Courts

Arthur Ashe, who won the U.S. Open in 1968 and Wimbledon in 1975, is researching and writing a book on the history of black athletes.

By Arthur Ashe

New York Times Service

NEW YORK — Next to "What is John McEnroe really like?" the question I am most often asked is, "Why aren't there more blacks in tennis?"

The answer to the first question is easy: I'm not sure. The second question is also easy to answer: money, accessibility, and peer pressure.

With some exceptions, black male athletes have emphasized and excelled in five sports: football, baseball, basketball, track and boxing. No other sports even come close to these in popularity for black American males. Each has solid support systems in black communities, traditions going back several generations — black coaches as instructors, ample facilities usually within walking distance, and, aside from boxing, public school competition.

But the total out-of-pocket cost to a youngster who played his way from Peewee competition to the professional ranks in any of the above-mentioned sports is less than $1,000. If it had cost more, he would not be able to afford it because the overwhelming majority of black professional athletes come from America's lower class.

Tennis is expensive relative to other sports once you get past the beginner stage. A decent pair of shoes costs $40. Racquets are $75 to $150 each. At some point past the beginner stage, pants, shirts, socks, sleeveless sweaters and warm-ups will be at least $100. Private lessons are $15 to $30 an hour in most places. And travel to and from tournaments can run more than $10,000 a year for elite youngsters. Most white families can't afford such costs any more than most black families can.

Money is seldom a problem at first. Arvelia Myers, who runs a program for Harlem youngsters, says once she gets them to try tennis the first time they stay for a while out of fascination and for the challenge. But when her talented beginners want more, at a higher level, their parents frequently balk at the expense.

□

Even those who do somehow find additional money have to allot it carefully. Major junior tournaments, which count heavily for national and international rankings are held in Burlingame, California; Kalamazoo, Michigan and Chattanooga, Tennessee, as well as in Miami, New York, Dallas, London, Paris, and Rome.

The foreign trips are usually subsidized by the U.S. Tennis Association. But if a player of between 12 and 18 cannot afford to go to all of the domestic events, he or she must pick tournaments carefully. Then double the cost: An adult must travel with a young player.

Accessibility is also a problem. Most U.S. children — black and white — are used to having public sports grounds within walking distance of home and staffed by experienced instructors who charge nothing. Even though that's generally true for tennis for beginners, players quickly realize that if they're serious they'd better join a club, which will cost from $500 to $700 a year. The vast majority of U.S. pros came up through the club system.

Before 1950, this system (in particular, country clubs whose restrictive policies were condoned by society) was almost singularly responsible for ethnic discrimination in tennis. Blacks and Jews were simply not allowed at certain clubs. There are still clubs today where I cannot play — let alone be a member — but that kind of overt discrimination has essentially disappeared.

□

There are three difficulties for blacks vis a vis the strong role private country clubs have in the game. One, they're costly. Two, few middle-class blacks want to join a club if they are the only black members. And three, in some places blacks are turned down for membership because the club discriminates.

None of the black U.S. pros now on the tour belonged to a club, although many used club facilities. Yet clubs have the best coaching, the best facilities and the major competitions.

Peer pressure is often unmentioned as a factor in black youths' not pursuing tennis. But it is a powerful deterrent. Most black kids want to do what their friends are doing. That happened with me when I was young: The overwhelming majority of my friends wanted to play baseball and basketball. But I wanted to play tennis, and I stuck with it. Still, I tried hard to make my high school baseball team, and I did, mostly because I felt the peer pressure.

As I watch and work with young athletes, I find that tennis is not viewed as macho enough by most black boys. That is why Yannick Noah's athleticism is so important to his stature as a role model. In every major sport that blacks have entered in large numbers, they have carved out a special niche for themselves. They dominate the National Basketball Association. They are the base stealers and power hitters in baseball. They are the runners, receivers, cornerbacks and safeties in football.

I also believe athletically gifted black youngsters are often steered away from tennis — by school coaches and by directors of playgrounds, boys clubs, and different leagues. A coach may often tell a kid he's a good athlete in a certain sport, usually one of the big five, and then encourage that sport at the expense of tennis.

Also, the black community cannot provide a support system for them. The vast majority of black players must train outside the black community if they hope to succeed. That is not the case for any of the big five sports. For example, after track meets, basketball and football games in black communities, there frequently are dances or other social events that accompany the competition. Not so in tennis.

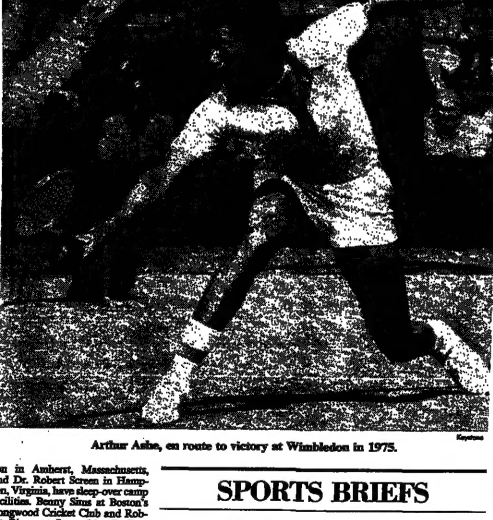
Consequently, the dearth of black teaching pros is not surprising. Only three, Bob Davis in Plattekill, New York, Arthur Carrington in Amherst, Massachusetts, and Dr. Robert Screen in Hampton, Virginia, have sleep-over camp facilities. Benny Sims at Boston's Longwood Cricket Club and Robert Binns at Long Island's Port Washington Tennis Academy are the only ones at prestigious clubs.

The number of blacks who have received scholarships to National Collegiate Athletic Association Division I schools since World War I is less than 20. Only one black college, Hampton Institute, has won the NCAA Division II title (in 1976), and few black colleges take it seriously. But the U.S. Professional Tennis Association and the USTA is trying to address the shortcoming.

The future? I believe most of the next generation of black stars will be female. Why? Because to the extent that you're a girl who is athletic and chooses to express yourself that way, then there are only two avenues for such expression professionally — golf and tennis. When more girls realize that, more will pursue tennis at a higher level.

In my estimation, boys will continue to concentrate on the big five.

The USTA's Schools Program and an expanded USTA-National *Junior Tennis League* will probably play a lead role in finding black talent. But until more black coaches are trained, in public-school and public-park systems, there will be no real breakthrough. It may take until the 21st century before a black player again wins at Wimbledon or the U.S. Open.



Keystone

Arthur Ashe, en route to victory at Wimbledon in 1975.

SPORTS BRIEFS

Soccer-Riot Case Continued to Nov. 10

LONDON (AP) — Twenty-six Liverpool soccer fans, facing extradition to Belgium on manslaughter charges arising from last year's Heysel Stadium riot, were bailed by London magistrates on Monday to reappear before the court Nov. 10.

In the proceedings, the department of public prosecutions must satisfy the court that the alleged offense falls under the terms of the extradition treaty. The maximum sentence for manslaughter in Belgium is 15 years.

Warrants for the arrest of the fans, allegedly involved in the rioting that killed 39 people, were signed last week.

Scores of fans rioted before the European Champions Cup final, between Liverpool and the Italian club Juventus, in Brussels in May 1985; those who died were caught in a stampede when a wall collapsed. The riot was widely blamed on the Liverpool backers, and English teams have been banned indefinitely from playing in any of the three European club competitions.

Elway Sparks Broncos Past Steelers

PITTSBURGH (UPI) — John Elway passed for three touchdowns, including a 13-yarder to Sammy Winder with 1:53 left in the fourth quarter, to give the Denver Broncos a 21-10 National Football League victory over the Pittsburgh Steelers here Monday night.

Elway also threw TD strikes of 21 yards to Steve Watson in the second quarter and 34 yards to Steve Sewell in the third as the Broncos improved to 2-0. Pittsburgh (0-2) trailed by 14-3 after three quarters, but pulled within 14-10 early in the final period on a 7-yard TD run by Rich Erenberg.

Quotable

- Martina Navratilova: "If I believed all the critics, I would have quit playing tennis a long time ago. If I believed all the praise, I wouldn't be talking to you — I'd be too good." *(LAT)*
- Luther Lassiter, pool player, on how he prepares himself for competition: "I like to practice shooting pistols, rifles, slingshots — things like that. And I spend a lot of time sitting on the curb contemplating life sliding by me." *(LAT)*

SCOREBOARD

Baseball

Monday's Line Scores

AMERICAN LEAGUE

California	000 010 500—6	4 1
Chicago	000 000 230—5	8 2

Lugo, Lucas (7), Moore (8) and Boone; DeLeon, Schmidt (7) and Fisk, Korkovice (7). W—Lugo, 1-0. L—DeLeon, 3-5. Sv—Moore (19). HR—Chicago, Cochrane (1).

Baltimore	000 010 200—3	12 0
New York	010 001 30x—5	6 1

Boddicker, Aase (7), Kinnunen (7) and Sefero, Dempsey (8); Armstrong, Shirley (6), Stoddard (7), Righetti (8) and Skinner, Espino (8). W—Stoddard, 4-1. L—Boddicker, 14-11. Sv—Righetti (40). HR—New York, Mattingly (26).

Minnesota	000 000 000—0	7 2
Cleveland	000 010 03x—4	10 1

Viola, Atherton (8), Fontenot (8) and Salas; Candiotti and Bando. W—Candiotti, 14-11. L—Viola, 14-12. HR—Cleveland, Bernazard (16).

Toronto	001 130 000—5	13 0
Milwaukee	000 200 000—2	7 1

Cerutti, Henke (8) and Whitt; Wegman, Johnson (4), Plesac (8), Clear (9) and Schroeder. W—Cerutti, 9-2. L—Wegman, 4-12. Sv—Henke (21). HRs—Toronto, Upshaw (8). Milwaukee, Schroeder (5).

Texas	004 002 000—6	6 0
Oakland	000 011 000—2	7 2

Hough, Russell (6), Mohorcic (7) and Slaught; Stewart, Leiper (6), Plunk (7), Ontiveros (8) and Tettleton. W—Hough, 13-10. L—Stewart, 9-3. Sv—Mohorcic (7). HRs—Oakland, Tettleton (8), Lansford (17).

NATIONAL LEAGUE

Pittsburgh	000 000 000—0	4 0
Philadelphia	020 201 00x—5	7 0

Rhoden, Winn (8) and Pena, Rodriguez (8); Carman and Russell. W—Carman, 9-5. L—Rhoden, 15-9. HR—Philadelphia, Schmidt (36).

Chicago	201 102 100—7	15 0
Montreal	000 020 010—3	12 0

Moyer, Sanderson (6) and J.Davis; Valdez, Brown (6), McGaffigan (8) and Nieto. W—Moyer, 6-4. L—Valdez, 0-2. Sv—Sanderson (7). HR—Montreal, Webster (8).

New York	000 000 000 000 0—0	7 0
St. Louis	000 000 000 000 1—1	7 0

Darling, Orosco (10), McDowell (12) and Carter; Tudor, Horton (4), Perry (11), Worrell (12) and LaValliere, Lake (13). W—Worrell, 9-10. L—McDowell, 13-9.

Major League Standings

AMERICAN LEAGUE

East Division

	W	L	Pct.	GB
Boston	86	57	.601	—
New York	78	66	.542	8½
Toronto	78	66	.542	8½
Detroit	76	68	.528	10½
Cleveland	73	71	.507	13½
Milwaukee	68	75	.476	18
Baltimore	68	76	.472	18½
West Division				
California	82	60	.577	—
Texas	74	70	.514	9
Kansas City	68	75	.476	14½
Oakland	67	78	.462	16½
Chicago	63	80	.441	19½
Seattle	63	81	.438	20
Minnesota	61	82	.427	21½

NATIONAL LEAGUE

East Division

	W	L	Pct.	GB
New York	93	50	.650	—
Philadelphia	75	68	.524	18
St. Louis	72	71	.503	21
Montreal	70	71	.496	22
Chicago	61	82	.427	32
Pittsburgh	58	84	.408	34½
West Division				
Houston	81	62	.566	—
Cincinnati	74	69	.517	7
San Francisco	73	71	.507	8½
Los Angeles	68	75	.476	13
San Diego	67	77	.465	14½
Atlanta	65	77	.458	15½

Football

College Top-20 Ratings

The top 20 teams in The Associated Press college football poll (first-place votes in parentheses, 1986 records, total points based on 20-19-18, etc., and rankings in last week's poll):

	Record	Pts	Pvs
1. Oklahoma (55)	1-0-0	1,175	1
2. Miami, Fla. (1)	3-0-0	1,099	2
3. Michigan	1-0-0	1,080	3
4. Alabama	3-0-0	992	4
5. Penn State (1)	1-0-0	938	5
6. Nebraska (1)	1-0-0	924	6
7. Washington (1)	1-0-0	751	17
8. LSU	1-0-0	747	14
9. Baylor	2-0-0	629	12
10. Auburn	1-0-0	615	9
11. Brigham Young	2-0-0	447	11
12. Arkansas	1-0-0	402	18
13. Florida	1-1-0	396	13
14. Georgia	1-0-0	383	19
15. Florida St.	1-1-0	298	15
16. Texas A&M	0-1-0	278	7
17. Arizona	2-0-0	199	—
18. Arizona St.	1-0-0	187	—
19. UCLA	0-1-0	169	16
20. Notre Dame	0-1-0	143	—

The United Press International board of coaches top-20 college football ratings (first-place votes and records in parentheses; total points, based on 15 points for first place, 14 for second, etc., and last week's rankings):

1. Oklahoma (43) (1-0)	725	1
2. Miami (3) (3-0)	681	2
3. Michigan (1) (1-0)	596	3
4. Alabama (1) (3-0)	558	4
5. Nebraska (1-0)	531	6
6. Penn State (2) (1-0)	501	5
7. Washington (1-0)	352	13
8. Louisiana State (1-0)	347	17
9. Baylor (2-0)	239	9
10. Georgia (1-0)	197	14
11. Auburn (1-0)	184	11
12. Arkansas (1-0)	158	15
13. Brigham Young (2-0)	146	9
14. Iowa (1-0)	113	20
15. Arizona (2-0)	111	16
16. Maryland (2-0)	81	18
17. Arizona State (1-0)	68	z
18. Florida State (1-1)	67	z
19. Texas A&M (0-1)	56	7
20. Southern Cal (1-0)	44	z

(z-unranked)

Teams on NCAA or conference probation and forbidden to compete in bowl games are ineligible for top-20 consideration by UPI. Those teams are Florida, Southern Methodist and Texas Christian.

NFL Standings

AMERICAN CONFERENCE

East

	W	L	T	Pct.	PF	PA
New England	2	0	0	1.000	53	9
Miami	1	1	0	.500	50	40
N.Y. Jets	1	1	0	.500	34	44
Buffalo	0	2	0	.000	57	64
Indianapolis	0	2	0	.000	13	43
Central						
Cincinnati	1	1	0	.500	50	57
Cleveland	1	1	0	.500	54	61
Houston	1	1	0	.500	51	26
Pittsburgh	0	2	0	.000	10	51
West						
Seattle	2	0	0	1.000	53	17
Denver	2	0	0	1.000	59	44
Kansas City	1	1	0	.500	41	37
San Diego	1	1	0	.500	57	45
L.A. Raiders	0	2	0	.000	42	48

NATIONAL CONFERENCE

East

	W	L	T	Pct.	PF	PA
Dallas	2	0	0	1.000	62	35
Washington	2	0	0	1.000	51	20
N.Y. Giants	1	1	0	.500	48	38
Philadelphia	0	2	0	.000	24	54
St. Louis	0	2	0	.000	23	49
Central						
Chicago	2	0	0	1.000	54	41
Detroit	1	1	0	.500	28	41
Minnesota	1	1	0	.500	33	23
Green Bay	0	2	0	.000	13	55
Tampa Bay	0	2	0	.000	17	54
West						
Atlanta	2	0	0	1.000	64	23
L.A. Rams	2	0	0	1.000	32	22
New Orleans	1	1	0	.500	34	41
San Francisco	1	1	0	.500	44	25

Monday's Result

Denver 21, Pittsburgh 10

Sept. 18

Cincinnati at Cleveland

Sept. 21

Atlanta at Dallas
Denver at Philadelphia
L.A. Rams at Indianapolis
Miami at N.Y. Jets
Pittsburgh at Minnesota
St. Louis at Buffalo
Seattle at New England
Tampa Bay at Detroit
Houston at Kansas City
New Orleans at San Francisco
N.Y. Giants at L.A. Raiders
Washington at San Diego

Sept. 22

Chicago at Green Bay

Transition

BASKETBALL

National Basketball Association

INDIANA—Signed Chuck Person, forward, to a multiyear contract.

FOOTBALL

National Football League

N.Y. JETS—Waived Ron Sams, guard. Signed Robert Ducksworth, cornerback.

HOCKEY

National Hockey League

HARTFORD—Signed Dean Evason, center, and Wayne Babych, right wing, to multiyear contracts.

N.Y. RANGERS—Released Adolph Brink and Peter Crouse, goalies; Jim Andonoff, Brent Meckling, Wally Niewchas and Mickey Volcan, defensemen; Nick Bumbacco, Shawn Clouston, Gus Greco and Brad Stepan, left wings; Newell Brown, Bruce Eakin, Todd Elik, Tim Glencross and Mark Jonssens, centers, and Robb Graham, Dwanne Moser and Paul Reifenberger, right wings.

St. Estephe.

See WINE, Page 4

$10 million in other military supplies from private organizations are

are a multinational and you have operations here and subsidiaries

free from U.S. tax to $70,000 from the current $80,000.

considerably more than corporate lobbyists had expected.

See TAX, Page 21

Travel.

OBSERVER

Tarnishing the Stars

By Russell Baker

NEW YORK — Today, a special treat for film fans as this column answers your questions about the stars:

I have heard rumors that Matthew Broderick is 37 years old, much too old for the teen-age roles he plays, so he has to have his face lifted every three months to keep him looking 16. Is this true?

You don't know the half of it. It has been many a moon since young Broderick said goodbye to 37. He is, in fact, the late Peter Lorre, whose death was falsely reported years ago so that the aging Lorre could drop out of sight and undergo a total bodylift that would leave him looking 16, thus enabling him to enjoy a fantastic new career as a leading child in today's puberty-oriented flicks.

Why is there bad blood between Sylvester Stallone and Arnold Schwarzenegger?

The feud began when the two had back-to-back greasing rooms at Gristle and Gore Studios. Arriving for work on a scene in which he was to shoot his way across Siberia, Stallone had to keep 3,000 extras waiting after he found that somebody had stolen his Mazola. Aides pleaded with him to go ahead with the scene, but Stallone's artistic integrity made it impossible for him to slaughter 3,000 extras convincingly unless his body was oiled with a fresh coat of Mazola. It turned out that Schwarzenegger had taken his own Mazola home the night before to do some cooking and forgot to bring it in for a scene in which he was to machine-gun the entire city of Detroit. When Stallone saw Schwarzenegger coming back from the slaughter wearing the missing Mazola, he was furious. He had to do his own film slaughter in a coating of Wesson oil.

If "Citizen Kane" was so great, why don't they remake it in color starring somebody like Rodney Dangerfield so modern audiences can appreciate it, too?

The project is already under way. The flick will be titled "Kane II." The script has the dead Kane — played by Arnold Schwarzenegger, not Dangerfield — leaving his grave on Halloween to mutilate some sexy 14-year-olds who are fooling around at a PG-13 lewdness level on Kane's sled Rosebud, which, it turns out, wasn't destroyed by fire after all. If "Kane II" garners big box-office bucks, scripts for more "Kanes" are already available up through Roman numeral XVIII.

Why are actresses like Zsa Zsa Gabor and Elizabeth Taylor always getting married?

They are too old-fashioned. Friends have tried to tell both Zsa Zsa and Liz about today's swinging life styles, but to no avail. Liz probably spoke for both of them when she answered a question by Teen Flick magazine about why she would rather get married than have "an honest illicit relationship" with Sylvester Stallone or Matthew Broderick.

I hear that Paul Newman and George C. Scott both turned down the role of the turkey in "The Giant Turkey From Outer Space" because they are allergic to turkey feathers and would have broken out in terrible itchy rashes while wearing the makeup.

Both stars did turn down the part, but strictly for artistic reasons. The giant turkey's part of the dialogue is limited to two words that sound like, "Gobble gobble." Although "Gobble gobble" is repeated frequently whenever the extraterrestrial fowl pecks teen-age Earthlings to death, neither Newman nor Scott was optimistic about developing the turkey's nuances of character without more elaborate dialogue.

Why didn't John Wayne ever make a movie with Matthew Broderick?

Because he once made a movie ("Red River") with Montgomery Clift in which Clift gave him a bad beating in a fistfight. The spectacle of the scrawny Clift manhandling Wayne was so implausible that it left audiences convulsed with laughter. That scared Duke. He thought the big money was in westerns, not comedy, so thereafter no males who were smaller than he was could get a role in his flicks. A casting director did, however, once send Matthew Broderick to audition. The script called for Wayne to spank a boy for misbehaving. When Matthew Broderick showed up, Duke said, "My fans'll never come to one of my movies again if they see me spanking a little old man like Peter Lorre."

New York Times Service

Reynolds Price: Author's Ordeal

By Michael Specter
Washington Post Service

DURHAM, North Carolina — It started two years ago, with a little stiffness in his legs. Nothing much really, but kind of a nuisance. It stuck with him, so he had some medical tests. The doctors found the problem right away: a tumor the size of a dynamite stick running down his spine.

"It's as awful a thing as you can imagine," Reynolds Price said recently, wincing. "Like having a fire in the control room."

They operated but did not expect him to live. He struggled through surgery and the grueling radiation treatment that followed. The next year was the most debilitating, depressing — and productive — of his life.

"During the 12 months it took me to realize I was becoming a paraplegic I wrote more than two-thirds of 'Kate Vaiden,' a trilogy of plays, I completed a volume of poems and a book of essays," Price said, his graceful hands wrapped around the sides of his wheelchair. "I kept wondering if this was one of those great autumnal bursts of energy that precede death. And of course it may be."

Price was sitting in his study, talking about his latest novel. Critics have hailed "Kate Vaiden" as the finest work of his career, a validation of the promise he displayed in his 1962 literary debut, "A Long and Happy Life."

The afternoon sun poured in on a gilt-edged likeness of the Virgin that hangs near his desk. There is a skull on the mantel, across from a crucifix. There are busts and photographs and etchings. Attachments of a lifetime.

At 53, in designer jeans and a polo shirt, he is a dandy still. His black hair has turned to gray, and his face, round as a watch, has softened. Although he has been sick, he has some time left and he expects he'll make use of it all.

"I don't write with a conscious sense of the hangman at the door, of my own mortality," said Price. "But I am a tremendously driven person, and I have gotten more so since sitting down. Words just come out of me the way my beard comes out. Who could stop it?"

A son of the Depression and of the South, Reynolds Price was born into a family he describes as a "ceaseless hive of oral narrative." His first novel, "A Long and Happy Life," brought him the unexpected burden of fame. Naming Price one of the country's best new writers, critics rushed to drape him in the mantle of Faulkner, as part of the Southern Renaissance.

He rejected the label but never the place. Other writers headed north but Price still lives on 40 acres of broomstraw and pine stands in the house he has owned for 23 years, not too far from Warren County, the home of his family and the heart of his writing.

He has turned out more than a dozen books — novels, poetry, plays and essays. Robert Penn Warren calls Price "a restless craftsman, one of our finest novelists." Endora Welty, a friend of 30 years, says, "I've always been deeply thrilled by his work." But until this year, with the publication of "Kate Vaiden," Reynolds Price had generally gained more praise than readers.

Now, after a quarter of a century, Price is back on the U. S. best-seller lists with his bizarre tale of a wandering North Carolina woman as she nears the end of a turbulent life.

Price had completed a third of "Kate Vaiden" when he entered the hospital. He says now it is not possible for him fully to weigh the influence of his illness on the direction of the novel. Kate was partly modeled on his eccentric mother, an endearing rogue who went her own way in the world and died in 1965. Like Huckleberry Finn, Kate is a lovable outlaw in a merciless world. And like Price, she develops cancer, resolving to fight it as best she can.

"If you have to scream, you sure don't ask the world to listen." That's Kate, dishing out one of Price's special brand of earthy aphorisms.

Friends who were in touch with Reynolds while he was in the hospital were heartbroken by his condition.

"It was a brutal experience and he suffered badly," Welty said. "But he withdrew from nothing."

How, in these circumstances, did he find it in him to write the novel?

"It became very important for me to have that daily chance to go into my office and become someone else who wasn't having the problems I was having, but having a different set of problems that I could control. In that sense she was a great help to me while I was undergoing the early stages of realizing just what I had within me.

"Of course, I was facing something drastic. And so was Kate. She begins to hear death rattling toward her, and she is attempting to make some consecutive sense out of the whole thing."

Price was born in 1933 in Macon, North Carolina, tobacco country. His father was a traveling salesman but he never wandered far, and Price drew him with affection in the title story of his second book, "The Names and Faces of Heroes."

He turned to writing as a child, because there was little else he could do well.

"I couldn't play sports, I wasn't any good at kid things. I thought I was quite a failure," he said. "Finally, when I got into junior high school, I found out there was something I could do. Like most kids, I just kept going in the direction the praise pushed me."

In 1951 that led to a scholarship at Duke University. Upon graduating, he spent three years at Oxford on a Rhodes Scholarship. He holds a distinguished professorship at his alma mater, where one half of each year he teaches writing and Milton. But his narrative voice has always risen from the lyrical humility of his own people.

"Mostly, I got that from Eudora," he said, referring to the writer who has been his biggest influence since they met in 1955, when she came to speak at Duke.

"One of the things she showed me as a writer was that the kinds of people I had grown up with were the kinds of people one could write marvelous fiction about. Working class Southern people."

He added: "Of Southern writers, Eudora Welty has been far more important to me than Faulkner, whose work is so very different from my own and for whose work I have never felt a great deal of affection."

His mother exerted a strong influence on Price, and her spirit has found its way into much of his fiction. But "Kate Vaiden" is his first deliberate attempt to capture her style in a single character.

"My mother was quite an outlaw. I mean that mentally and spiritually she was tremendously free at a time when women weren't supposed to be. She simply went around having her life her way insofar as it was possible."

Although "Kate Vaiden" has been through five printings and has won Price nearly unanimous praise from book critics around the country, he does not rank it among his finest works.

He says today that, however much he is delighted by the warm reception for "Kate Vaiden," critical acclaim for a book doesn't really touch one's life as a writer. But he has clearly given a great deal of thought to book critics over the years.

"I never quite understood the fury that can go into certain kinds of fiction-reviewing in this country," he said, without bitterness, as if he were lecturing a class of writers.

The Associated Press

Author Price: "I don't write with a conscious sense of the hangman at the door."

PEOPLE

Koch Gives Students Undiplomatic Welcome

Mayor Edward I. Koch sent a group of Soviet students storming out of New York's City Hall after he savaged the Kremlin for arresting Nicholas Daniloff, the U.S. journalist accused of espionage. Koch first read a proclamation welcoming the youngsters, part of a joint Soviet-U.S. theater group, then launched into a tirade on the Daniloff affair. "The Soviet government is the pits," the mayor said, shocking the 10 visiting Soviet youths, aged 10 to 18. Igor Druzhinin, 14, declared, "I don't want to stay in this house. I want to go to the bus and go far away from this place. The mayor is very rude." The mayor was unrepentant. He then met a group of East German college students, one of whom asked what he thought of East Berlin. "Do you want an honest answer or a diplomatic one?" he asked. He called East Berlin drab and joyless and asked if they thought the Berlin Wall had been built "to keep West Germans out or East Germans in."

□

Caroline Kennedy is sporting a new look — braces on her teeth to correct an overbite. The Boston Herald says the daughter of the late President John F. Kennedy went to the orthodontist before her July wedding but didn't want the braces put on until she returned from her honeymoon. She is a student at Columbia Law School.

□

The office of the United Nations High Commissioner for Refugees has been awarded the Balzan Foundation's peace prize for "humanity, peace and brotherhood" and for its aid to refugees. The award carries a cash prize of 500,000 Swiss francs ($300,000). In addition, Roger Revelle, 77, of La Jolla, California, was honored for his studies on carbon monoxide pollution in the atmosphere; Otto Neugebauer, 87, an American citizen born in Innsbruck and a former professor at Brown University, was named for his research on ancient astrology, and a French jurist Jean Rivero, 76, won for his efforts to safeguard human rights. The three were awarded cash prizes of 250,000 Swiss francs. The winners were announced in the Balzan Foundation offices in Milan. The foundation is named after the late Italian heiress Lina Balzan.

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